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Report of the
PROVINCIAL AUDITOR
to the
LEGISLATIVE ASSEMBLY

DEPOSITORY LIBRARY MATERIAL

For the Year Ended March 31, 1979

Province of Ontario

2. 3
Report of the
PROVINCIAL AUDITOR *'s office*
to the
LEGISLATIVE ASSEMBLY

DEPOSITORY LIBRARY MATERIAL

For the Year Ended

March 31, 1979

THE HONOURABLE J. E. STOKES, M.P.P.,

*Speaker of the Assembly
Province of Ontario*

Dear Sir:

I have the honour to present my report for the year ended March 31, 1979,
in accordance with the requirements of The Audit Act, 1977.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'F. N. Scott', with a large, sweeping flourish at the end.

F. N. Scott, F.C.A.,
Provincial Auditor.

Toronto, September 28, 1979.

TABLE OF CONTENTS

	SECTION	PAGE
OFFICE OF THE PROVINCIAL AUDITOR		
Introduction	1	11
Primary Audit Responsibilities	2	12
Primary Reporting Responsibilities	3	12
Other Audit and Reporting Responsibilities	4	14
Organization and Personnel	5	14
Nature of Audit Activities	6	16
Staff Training and Professional Development	7	17
Meeting of Legislative Auditors	8	18
Examination of the Accounts of the Office of the Provincial Auditor	9	18
Timetable for Preparation and Submission of the Prov- incial Auditor's Annual Report to the Legislature	10	19
 PUBLIC ACCOUNTS		
Preparation of the Public Accounts	11	20
Expression of Opinion on the Financial Statements of the Province	12	20
Summary of Significant Accounting Policies	13	21
Presentation of Acquisition/Construction of Physical Assets in the Public Accounts	14	21
The Standing Public Accounts Committee	15	22
Recommendations of the Standing Public Accounts Committee	16	22
 COMMENTS ON THE CONSOLIDATED REVENUE FUND		
Introductory Comments	17	23
Statement of Consolidated Revenue Fund	18	23
Payments into the Consolidated Revenue Fund	19	23
Statement of Budgetary Revenue	20	24
Additional Comments Re Budgetary Revenue	21	24
Non-Budgetary Transactions, Receipts and Credits ...	22	25
Debt Transactions, Proceeds of Loans	23	25
Payments out of the Consolidated Revenue Fund	24	25
Comparison of Authorized and Actual Payments — Voted Appropriations	25	26
Statutory Appropriations	26	27
Statement of Budgetary Expenditure	27	27
Summary of Budgetary Expenditure by Ministry	28	29
Additional Comments Re Budgetary Expenditure	29	30

	SECTION	PAGE
Non-Budgetary Transactions, Disbursements and Charges	30	32
Debt Transactions, Retirements of Loans	31	32

COMMENTS ON ASSETS AND LIABILITIES

Introductory Comments	32	33
Statement of Assets and Liabilities	33	33
Advances and Investments — Other Corporations, Boards and Commissions	34	33
Loans to Municipalities	35	35
Net Debt	36	36
Deposits with the Province of Ontario Savings Office ..	37	37
Pension Funds	38	37
Deposit, Trust and Reserve Accounts	39	37
Debentures and Notes	40	40
Contingent Liabilities	41	40

COMMENTS ON MINISTRY OPERATIONS

Introductory Comments	42	41
Audit Memoranda	43	41
Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports	44	41
Current Relevance of Grants Queried, Ministry of Agriculture and Food	45	41
Refinements Needed in Management by Results Process, Ministry of Agriculture and Food	46	42
✓ Apparent Overpayment to Terminated Employee, Ministry of the Attorney General	47	44
✓ Poor Controls over Inventories of Furniture and Equipment, Ministry of the Attorney General ...	48	45
Substantial Lack of Compliance with Guidelines and Other Matters Re Training in Business and Industry Program, Ministry of Colleges and Universities	49	45
Criteria and Other Matters Related to the Use of Consultants Queried, Ministry of Community and Social Services	50	48
Overpayment of General Legislative Grants to School Boards, Ministry of Education	51	50
Recommendations Relating to Centre Funded by Ministry Grants, Ministry of Education	52	50
Review of Grant Payments for Transportation to Lanark County Board of Education, Ministry of Education	53	52
Detailed Review of Waste Recovery Program, Ministry of the Environment	54	55

	SECTION	PAGE
Improved Reporting and Evaluation Procedures Recommended for Experience Program, Ministry of the Environment	55	64
Inadequate Rate Reviews for Water and Sewage Charges to Municipalities, Ministry of the Environment	56	64
Observations Re Expenditure of the Royal Commission on the Northern Environment, Ministry of the Environment	57	65
Recommendations for Improvements in Branch Efficiency, Ministry of the Environment	58	75
Revenue from Licences, Ministry of the Environment ..	59	77
Land Acquisitions, the Parkway Belt West, Ministry of Government Services	60	77
Cost Savings Recommended Re Ontario Drug Benefit Plan, Ministry of Health	61	81
Numerous Weaknesses in Government Pharmacy System, Ministry of Health	62	84
Outstanding Recoveries, Ontario Health Insurance Plan, Ministry of Health	63	86
Substantial Funding of Medical Clinic Questioned, Ministry of Health	64	88
Approval for Contract Not Obtained from Management Board of Cabinet, Ministry of Housing	65	94
Procedural Improvements Recommended Re Grants Paid Pursuant to Ontario Home Renewal Program, Ministry of Housing	66	94
Observations Re Tourism Marketing Development Operations, Ministry of Industry and Tourism ..	67	96
Comments on Hamilton-Wentworth Review Commission, Ministry of Intergovernmental Affairs	68	100
Rationale for Grant Payments Queried, Ministry of Intergovernmental Affairs	69	100
Significant Coding Errors Re 1977-78 Public Accounts, Ministry of Northern Affairs	70	101
Apparent Overexpenditure of Agricultural Development Activity, 1977-78 Public Accounts, Ministry of Northern Affairs	71	103
Late Deposit and Recording of Taxation Revenue, Ministry of Revenue	72	103
Observations Re Revenue Collected under The Provincial Land Tax Act, Ministry of Revenue ...	73	104
Continuing Overdraft Position of Accountable Advance, Ministry of the Solicitor General	74	107
Non-Recovery of Costs of Policing Municipalities, Ministry of the Solicitor General	75	108
Report of the (Federal) Royal Commission on Financial Management and Accountability	76	108
Expenditure of Royal Commissions	77	110
Expenditure of Select Committees	78	110

	SECTION	PAGE
Write Off of Uncollectable Accounts	79	111
Board of Internal Economy	80	112
Management Board Orders	81	112
Special Warrants	82	113

COMMENTS ON CROWN AGENCY OPERATIONS

Introductory Comments	83	114
The Audit Amendment Act, 1979	84	115
Inactive Crown Agencies	85	115
Method of Audit Reporting	86	116
Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports	87	116
Review of Crop Insurance Program, The Crop Insurance Commission of Ontario	88	116
Comments on Funding of Independent Community-Based Clinical Delivery Systems, Legal Aid Fund	89	127
Matters Related to Accounts Receivable and Increase in Fee, Motor Vehicle Accident Claims Fund	90	130
Operating Losses on Various Activities, Office of the Assembly	91	131
Inaction Noted Re Recommended Closing of Branch Facility, Ontario Agricultural Museum	92	132
Loss on Terminated Film Production, The Ontario Educational Communications Authority	93	133
Non-Routine and Non-Arm's Length Transactions, Ontario Food Terminal Board	94	133
Questionable Matters Concerning Grant Payment, Ontario Housing Corporation	95	134
Stronger Penalties Urged for Tenant Misrepresentation of Income, Ontario Housing Corporation	96	136
Opportunity for Improved Allocation of Grants, Province of Ontario Council for the Arts	97	138
Report Made to the Standing Public Accounts Committee Re Matters Pertaining to The Royal Ontario Museum	98	139
Excess Capacity at New Transport Terminal, Star Transfer Limited	99	139
Improved Computer Controls Recommended, Workmen's Compensation Board	100	140

ACKNOWLEDGEMENTS

EXHIBITS

	PAGE
1. Province of Ontario, Audited Financial Statements, Year Ended March 31, 1979	145
2. Management Board Orders – Amounts Authorized and Expended Thereunder during the Year Ended March 31, 1979	159
3. Statutory Appropriations – Amounts Expended Thereunder during the Year Ended March 31, 1979	167
Office of the Provincial Auditor:	
4. Organization Chart	173
5. Ministry Audits and Special Reviews, Year Ended March 31, 1979	174
6. Agency of the Crown and Crown Controlled Corporation Audits, Year Ended March 31, 1979	176
7. Status of Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports	179
8. Status of Recommendations Contained in the Reports of the Standing Public Accounts Committee to the Legislative Assembly	184
9. Summary of Recommendations – Report of the Royal (Lambert) Commission on Financial Management and Accountability ..	195

OFFICE OF THE PROVINCIAL AUDITOR

1. Introduction. This is the first Report submitted to the Legislative Assembly of the Province of Ontario in accordance with the provisions of The Audit Act, 1977, which came into force on April 1, 1978. In previous fiscal years, our duties were carried out pursuant to the previous legislation, The Audit Act, which was in effect until the end of the 1977-78 fiscal year.

The Audit Act, 1977 contains several provisions dealing with the role, responsibilities and independence of the Provincial Auditor. Certain of these provisions are covered in the ensuing sections dealing with audit and reporting responsibilities, and some are explained in the chapter headed "Comments on Crown Agency Operations". Other significant sections of the new Act dealing with these matters are summarized as follows:

- In addition to his annual report, section 12 of the Act permits the Auditor at any time to make a special report to the Speaker of the Assembly relating to any matter that in his opinion should not be deferred until the annual report. The Speaker is then required to lay such special report before the Assembly forthwith.
- In the case of any grant payments made by the Province or an agency of the Crown, section 13 of the Act provides that the Provincial Auditor may perform inspection audits thereof, and also may obtain a full accounting of the disposition of such grants from the recipients. Inspection audits are defined as examinations of accounting records.
- Section 16 of the Act spells out the Provincial Auditor's responsibilities with regard to the Standing Public Accounts Committee. At the request of the Committee, the Auditor shall attend its meetings to assist the Committee in planning its agenda and conducting its review of the Public Accounts and the Auditor's annual report. Pursuant to a resolution of the Committee, the Auditor is also required to examine into and report on any matter in respect of the Public Accounts.
- Regarding the matter of independence, section 12(1) of the Act provides that the Provincial Auditor will submit his annual report to the Speaker, who shall table it forthwith before the Assembly. Under the previous Act, the annual report was submitted to the Lieutenant Governor in Council, and was tabled in the Assembly by a Minister of the Crown.
- Sections 20 and 29 of the Act contribute to the Provincial Auditor's independence by having his staffing and financial requirements approved by the Board of Internal Economy, and not by the Government. Additionally, section 20 of the Act also provides that employees of the Provincial Auditor, rather than being civil or public servants, are simply employees of the Office of the Provincial Auditor. However, pursuant to section 22 of the Act, employees of the Office participate in the Public Service Superannuation Fund, and are entitled to the employee benefits applicable to non-bargaining unit civil servants as set out in the Public Service Act.

2. Primary Audit Responsibilities. The primary audit responsibilities of the Provincial Auditor are twofold, and involve the examination of:

- (i) The accounts of the Province in accordance with his appointment as auditor under The Audit Act, 1977.
- (ii) The accounts of agencies of the Crown in accordance with his appointment as auditor under various related statutes or other appropriate authorities.

The examination of the accounts of the Province for the year ended March 31, 1979 was made in conformity with section 9(1) of The Audit Act, 1977 which reads as follows:

"The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise."

All Ministries were subject to audit in accordance with section 9(1) throughout the 1978-79 fiscal year. A listing of such audits covered by this Report appears in Exhibit 5.

Agencies of the Crown are defined in section 1(a) of The Audit Act, 1977, which has been reproduced as part of section 83 of this Report. For the year ended March 31, 1979 the Provincial Auditor had audit responsibility for forty-seven such Agencies pursuant to his appointment as auditor under the various related statutes. These Agencies are listed in Exhibit 6 to this Report. Two of these Agencies were inactive during 1978-79. Further comment in this regard is contained in section 85.

The Provincial Auditor also had responsibility during the year for six other Agencies as a result of his appointment as auditor by shareholders or governing bodies. A listing of these agencies also appears in Exhibit 6.

In the case of two additional Agencies shown in Exhibit 6, the Workmen's Compensation Board and the Toronto Area Transit Operating Authority, public accountants have been designated as auditors. However, pursuant to section 9(2) of the Act, these audits are both performed under the direction of the Provincial Auditor, and the public accountants are required to report to the Provincial Auditor.

As explained in section 84 of this Report, six additional bodies will be classified as agencies of the Crown for the year ending March 31, 1980, pursuant to The Audit Amendment Act, 1979. The audits of these six bodies will all be subject to the direction of the Provincial Auditor in accordance with section 9(2) of the Act.

3. Primary Reporting Responsibilities. Under section 12 of The Audit Act, 1977, the Provincial Auditor is required to report annually, through the Speaker, to the Legislative Assembly on the results of his examinations. Section 12(2), which summarizes the required content of the annual report, reads as follows:

“In his annual report in respect of each fiscal year, the Auditor shall report on,

- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
- (b) the examination of accounts of receipts and disbursements of public money;
- (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
- (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
- (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
- (f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,
 - (i) accounts were not properly kept or public money was not fully accounted for,
 - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
 - (iii) money was expended other than for the purpose for which it was appropriated,
 - (iv) money was expended without due regard to economy and efficiency, or
 - (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory.”

For reference and identification purposes the above legislative provisions can be related to the content of this Report, or otherwise commented upon, as follows:

- 12(2)(a) : Refer to comments contained in this chapter of the Report. In carrying on the work of the Office, with one minor exception

(see section 57), we received all the information and explanations required.

- 12(2)(b) : Refer to "Comments on Ministry Operations" (sections 42-82) and "Comments on Crown Agency Operations" (sections 83-100).
- 12(2)(f) :
- 12(2)(c) : Refer to "Provincial Auditor's Opinion" (Exhibit 1), "Comments on the "Consolidated Revenue Fund" (sections 17-31) and "Comments on Assets and Liabilities" (sections 32-41).
- 12(2)(d) : No Special Warrants were issued during the 1978-79 fiscal year.
- 12(2)(e) : Refer to Exhibit 2.

4. Other Audit and Reporting Responsibilities. In addition to the primary audit and reporting responsibilities covered in the preceding two sections, the Provincial Auditor has further such responsibilities pursuant to sections 16 and 17 of The Audit Act, 1977.

Under section 16 of the Act, as previously referred to, the Provincial Auditor is required to examine into and report on any matter referred to him in respect of the Public Accounts by a resolution of the Standing Public Accounts Committee.

Section 17 of the Act requires the Provincial Auditor to undertake such special assignments as may be required by either the Assembly, the Standing Public Accounts Committee (by resolution of the committee), or by a Minister, provided that such special assignments do not take precedence over his other duties. Further, if such an assignment is referred to the Provincial Auditor by a Minister, it can be declined if, in his opinion, it conflicts with his other duties.

During the year, pursuant to section 17 of the Act, the Minister of Education requested the Provincial Auditor to conduct an audit of grant payments for transportation costs that had been made by the Ministry of Education to the Lanark County Board of Education. Details of our memorandum to the Minister resulting from this request are contained in section 53 of this Report.

Additionally, at the May 31, 1979 meeting, the Standing Public Accounts Committee passed a motion requiring the Provincial Auditor to analyze the most current monthly financial statements and budget of The Royal Ontario Museum, and to report back to the Committee on the results of such work. This resolution was contained in a Report of the Committee to the Legislative Assembly dated May 31, and was adopted by the Assembly on June 4. Our memorandum resulting therefrom, which was issued to the Committee on June 21, 1979, is referred to in section 98 of this Report.

5. Organization and Personnel. The Office of the Provincial Auditor is divided into four branches, each of which is administered by a Director.

Public Accounts Audit Branch: audits the financial statements of the Province appearing in Volume 1 of the Public Accounts. Responsible for the preparation of material

for the Auditor's annual Report and liaison with the Standing Public Accounts Committee. Also responsible for the conduct of special assignments and specific operational (program) reviews.

Ministry Audit Branches (2):

audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund. Also audit the accounts of certain agencies of the Crown.

Crown Agency Audit Branch:

audits boards, commissions and other agencies of the Crown. Where specified by legislation, directs audits of agencies performed by public accountants.

An organization chart of the Office is presented in Exhibit 4 to this Report.

In previous years, the audit of payments into the Consolidated Revenue Fund was the responsibility of the Revenue Audit Branch, whereas the audit of payments out of the Consolidated Revenue Fund was undertaken by the Expenditure Audit Branch. Under this system, it was possible that, in addition to a Ministry's own internal audit staff, two audit teams from this Office could be in any Ministry concurrently — one team auditing revenue, and the other auditing expenditure transactions.

Therefore, in an effort to achieve increased efficiency, the audit activities previously performed by the Revenue Audit Branch and the Expenditure Audit Branch were consolidated in June 1978, and two Ministry Audit Branches were established. One Ministry Audit Branch is now responsible for the audit of all financial activities of Ministries within the General Government and Social Development Policy Fields (excluding the Ministry of Health). The other Ministry Audit Branch is responsible for similar audits of the Ministry of Health and all Ministries within the Justice and Resources Policy Fields.

In conjunction with this change, in order to more evenly distribute the Office workload, certain Agencies previously audited by the Crown Agency Audit Branch were reassigned to the Ministry Audit Branches. The Agencies involved are mainly those whose financial statements are of a fund account nature (e.g. Public Service Superannuation Fund) or those whose operations are very closely associated with the reporting Ministry (e.g. Ontario Racing Commission).

For the past several years, the policy established for the Office has been to require that all new members of the audit staff either possess a recognized accounting qualification, or be actively pursuing a course of study toward such qualification. This policy has been successfully followed by the Legislative Auditors of the other provinces, and by the Auditor General of Canada. At the date of this Report, the staff of the Office numbered eighty, thirty-six of whom are professionally qualified accountants. Twenty-six employees are enrolled in various stages of courses leading to professional qualification through one of the following: The Certified

General Accountants Association of Ontario, The Institute of Chartered Accountants of Ontario, or The Society of Management Accountants of Ontario.

6. Nature of Audit Activities. In order to express a professional opinion on the financial statements of the Province and numerous Crown Agencies, audits are conducted in accordance with generally accepted auditing standards, as promulgated by the Canadian Institute of Chartered Accountants. All Ministry and Agency audits include a general review of the accounting procedures and systems of internal control, together with such tests of accounting records and supporting evidence as are considered necessary in the circumstances. Additionally, considerable emphasis is placed on determining whether there is full compliance with existing Statutes and Regulations.

The year-end audit activities of the Public Accounts Audit Branch, combined with the ongoing audits carried out by the two Ministry Audit Branches, enable the Provincial Auditor to express an opinion on the financial statements of the Province.

In addition to the above activities of a financial/compliance nature, section 12 of the new Act requires the Provincial Auditor to report on any cases where he has observed that money was expended without due regard to economy and efficiency, as well as any adverse observations related to the procedures undertaken by ministries and Crown agencies to measure the effectiveness of their programs. Accordingly, after certain preliminary research as covered in section 6 of our 1977-78 Report, the Office now has two audit teams whose duties are exclusively devoted to the performance of operational reviews of Ministry/Agency programs, together with special assignments. It is our expectation that the experience gained by audit support staff rotating through these two teams will be beneficial insofar as increasing their ability to deal with matters of operational significance in the course of ongoing Ministry and Agency audit assignments.

Effective with the formation of the two Ministry Audit Branches in June 1978, the Office developed a revised approach to Ministry audits. Under this new approach, it is now our objective to visit every Ministry once every year for regular audit activity. Such regular audit activity consists of the following two components:

- 1) The performance of an analytical review of revenue, and of expenditure by program and by standard account classification. (Previously, expenditure was audited by type—transfer payments, acquisition/construction of physical assets or administrative expenditure). In general, the scope of our analytical review includes a complete review and evaluation of the Ministry's system of internal control, and the preparation of comparative revenue/expenditure summaries which are reviewed for unusual situations requiring further investigation.
- 2) The selection of specific areas (e.g. a particular revenue source, expenditure program or activity within a program) and the performance of a detailed audit of such areas. This detailed audit includes operational and/or inspection reviews where feasible. Additionally, any matters re-

quiring further investigation as a result of the analytical review are dealt with as part of this detailed review.

Ministry audit activities include, as warranted, visits to branch locations outside the Ministries' main offices, as well as visits to certain other affiliated institutions (correctional centres, psychiatric hospitals, etc.).

As in previous years, the major revenue-producing areas of the Government were given concentrated audit coverage. In this regard, an audit team is located at the Ministry of Revenue to perform a continuous audit of taxation revenue. Such revenue amounted to over \$6.9 billion or 54.9 per cent of the Province's total revenue for the year. Similarly, our Office maintains a separate group of auditors whose function is the review of claims on the Government of Canada which arise from contributory or cost-sharing agreements and programs.

The Crown Agency Audit Branch is concerned with essentially the same matters as have been outlined in the preceding paragraphs. In addition, however, each Agency prepares its own financial statements, and the annual audit activity culminates in the expression of an opinion on these financial statements.

At the conclusion of all audits, the staff member in charge discusses the audit observations with senior officials of the Ministry or Agency. This is done to ensure that the audit information is factual, and to obtain the views of the officials respecting any comments or recommendations which might be made as a result of the audit.

7. Staff Training and Professional Development. In section 6 of the 1977-78 Report, reference was made to the Office's increased involvement in the area of staff training and professional development. Such involvement, which has been maintained during the past year, has dealt with the development of and arranging for in-house training courses, the provision of any needed assistance to students in connection with their accounting courses and examinations, as well as the development and maintenance of an enlarged Office library.

The major undertaking during the past year was the presentation of two EDP audit training courses. The first course, which was held in December 1978 (four days) for senior members of the Office, was designed to create an awareness of EDP audit implications, and to assist such senior staff in planning and reviewing EDP audit work. The second course, held in January 1979 (eight days) for supervisors and field auditors, was designed to enable such staff to evaluate EDP systems and internal controls, and to carry out the related audit tests.

At the date of this Report, courses have been scheduled for the fall and winter months dealing with the following subject matter:

- (A) Staff Orientation — a three day seminar dealing with the basic organization of the Government of Ontario and of the Office of the Provincial Auditor.
- (B) Communications — a five day workshop dealing with oral and report writing skills.

- (C) Audit Level II — a five day course demonstrating the Office's auditing objectives and methodology in the context of a complete Crown agency audit.
- (D) Basic Accounting — a fifty hour individual study course, enabling students to acquire or strengthen an understanding of basic accounting procedures.
- (E) Statistical Sampling — a twenty-five hour individual study course, presenting an introduction to statistical sampling and emphasizing practical audit applications.

8. Meeting of Legislative Auditors. Commencing in 1973 the Provincial Auditors and the Auditor General of Canada have met annually to discuss matters of mutual interest and concern, and to review the role and direction of their respective Offices. These meetings provide an excellent forum for the exchange of ideas and information, and for the development of new and better ways of discharging audit responsibilities. The seventh annual meeting was held in St. John's, Newfoundland on August 13-15, 1979, and was attended by two members of this Office.

For the first time, a meeting of the representatives of all the provincial Public Accounts Committees was held this year. This meeting, which was initiated by the Chairman of the Ontario Committee to review matters of common concern, was also held in St. John's on August 14-15, 1979. As a result, part of the current year's meeting of the Legislative Auditors consisted of a combined session, on August 15, with the provincial Public Accounts Committee representatives.

9. Examination of the Accounts of the Office of the Provincial Auditor. Section 28 of The Audit Act, 1977 reads as follows:

"A person or persons, not employed by the Crown or the Office of the Assembly, licensed under The Public Accountancy Act and appointed by the Board, shall examine the accounts relating to the disbursements of public money on behalf of the Office of the Auditor and shall report thereon to the Board and the chairman of the Board shall cause the report to be laid before the Assembly if it is in session or, if not, at the next ensuing session."

As indicated in our 1977-78 Report (section 8), at its June 5, 1978 meeting, the Board of Internal Economy approved the appointment of a public accounting firm to audit the disbursements of this Office for the fiscal years ended March 31, 1978 and 1979. The audit for the year ended March 31, 1978 was completed and the following report, dated August 2, 1978, was tabled in the Assembly on October 23, 1978:

"We have examined the statement of expenditure of the Office of Provincial Auditor for the year ended March 31, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

"In our opinion, this statement presents fairly the expenditures of the Office

of Provincial Auditor for the year ended March 31, 1978 in accordance with the basis of accounting described in Note 1 to the statement, which, except for the change with respect to the treatment of pay periods which overlap the fiscal year end date, has been applied on a basis consistent with that of the preceding year."

By way of explanation, Note 1 to the statement read as follows:

"The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the 'cash flow' principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended.

"Commencing with the year ended March 31, 1977, the Province changed its practice of accounting for bi-weekly payrolls. Payments to employees for the pay period which overlaps the fiscal year end date are to be apportioned between the two fiscal years. This change was not applicable for 1977 to the Office of Provincial Auditor which reports directly to the Legislature and whose estimates are reviewed by the Board of Internal Economy. The practice was first adopted by the Office of Provincial Auditor at March 31, 1978. Had the change been applicable at March 31, 1977 the effect would have been to decrease the Office's 1978 expenditure (and to increase that of 1977) by approximately \$50,000."

As at the date of this Report, the audit of disbursements relating to the year ended March 31, 1979 has been completed, and it is expected that the auditor's report will be laid before the Assembly during the fall session.

10. Timetable for Preparation and Submission of the Provincial Auditor's Annual Report to the Legislature. Section 12(1) of The Audit Act, 1977 requires that the Auditor's annual Report be submitted to the Speaker of the Assembly not later than December 31st each year, provided that the Public Accounts have previously been laid before the Assembly.

To comply with this section of the Act, and to allow the required time for the preparation and printing process, our Report covers audits completed to the end of September. Our 1978-79 Report, therefore, covers audit activity through the twelve month period October, 1978 to September, 1979.

PUBLIC ACCOUNTS

11. Preparation of the Public Accounts. The Public Accounts, which are published in three volumes, are prepared under the direction of the Treasurer of Ontario as stipulated in section 13 of The Ministry of Treasury and Economics Act, 1978. This section reads as follows:

"The Public Accounts for each fiscal year shall be prepared under the direction of the Treasurer and shall be delivered to the Lieutenant Governor in Council and laid before the Assembly not later than the tenth day of the first session held in the following calendar year."

The audit of the Public Accounts consists of an examination of the financial statements of the Province appearing in Volume 1, on which the Provincial Auditor expresses an opinion.

Volume 2 contains reproductions of audited financial statements of Crown agencies:

- a) in which the Province has an investment, or
- b) which have borrowed from the Province, or
- c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies which are funded in whole or in part by revenues generated from their operations.

The details of expenditure appearing in Volume 3 of the Public Accounts are not reviewed by this Office prior to publication, but are subject to examination during our subsequent post-audit of the Ministry concerned.

12. Expression of Opinion on the Financial Statements of the Province. The expression of opinion referred to in the preceding section appears on Page 23 of Volume 1 of the 1978-79 Public Accounts, and also forms part of Exhibit 1 of this Report. Part of this opinion requires the Provincial Auditor to report whether the accounting principles stated in the Public Accounts have been applied on a basis consistent with that of the preceding fiscal year.

As covered in Note 11 of the financial statements (see Exhibit 1), in the 1978-79 fiscal year, the Province changed its practice of allocating and recovering the annual contributions in respect of the unfunded liabilities of the Public Service Superannuation Fund. Previously, such payments were included in their entirety in the amount reported for the Ministry of Government Services in the Statement of Budgetary Expenditure. In order to reflect a fairer distribution of these costs as among all ministries and other participating government agencies, the 1978-79 payments of \$55 million were treated as follows:

- a) \$51 million was allocated among all the ministries in the Statement of Budgetary Expenditure.
- b) the remaining \$4 million was recovered from certain government agencies

(e.g. Liquor Control Board of Ontario) whose employees are contributors to the Public Service Superannuation Fund.

As a result of this change in practice, with which we concurred, the Province's total budgetary expenditure of \$14,157 million was \$4 million less than would have been the case if the 1977-78 practice had been followed in 1978-79. Accordingly, the Provincial Auditor's opinion, as it relates to consistency, has been qualified.

13. Summary of Significant Accounting Policies. On the basis of evidence examined, the Provincial Auditor endeavours to arrive at an opinion as to the fairness and consistency of the Province's financial statements, and as to the degree of their compliance with established accounting principles. In most activities other than those of governments, these are known as "generally accepted accounting principles". Because generally accepted accounting principles have not yet been established for governments, it is usual to report on the degree of compliance with stated accounting policies.

Accordingly, an integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on page 12 of Volume 1 of the 1978-79 Public Accounts, which forms part of Exhibit 1 of this Report.

Such Summary is included as an integral part of the financial statements in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of government accounting, especially when compared to practices followed in the private sector, the accounting policies stated in the Summary have particular importance to a reader who desires to have an adequate understanding of the Public Accounts.

14. Presentation of Acquisition/Construction of Physical Assets in the Public Accounts. Expenditure with respect to the acquisition/construction of physical assets totalled \$371,182,289 for the year ended March 31, 1979.

As covered in the Summary of Significant Accounting Policies, since expenditures on fixed assets are not considered to differ from any other service to the public, they are expensed as budgetary items in the year of acquisition.

The guide to the 1978-79 Public Accounts, Volume 1, page 9, indicates that the acquisition/construction of physical assets standard accounts classification includes all costs of acquisition and construction by contract of new and used buildings and engineering structures. This standard accounts classification does not, however, include the cost of work performed by the Province's own labour force with respect to new capital formation, nor does it include the costs of materials and services provided by the Province for use by contractors on capital projects. Such costs are termed "own account" expenditure and are charged to other standard accounts classifications — salaries and wages, services, etc.

"Own account" expenditure is substantial and, according to records maintained in this regard, totalled in excess of \$70 million for the 1978-79 fiscal year.

15. The Standing Public Accounts Committee. The Standing Public Accounts Committee consists of twelve members and, as is the custom, is chaired by a member of the Official Opposition, with party membership proportional to the respective party membership in the Legislature. Pursuant to the Standing Orders of the Legislative Assembly, which were approved by the Assembly on December 14, 1978, the Committee is now appointed for the life of each Parliament. The Report of the Provincial Auditor and the Public Accounts now stand referred to this Committee as they become available.

Reference was made in our 1977-78 Report (section 13) to the formation of the Committee for the Second Session of the Thirty-First Parliament, which commenced on February 21, 1978, and to the Committee's activities prior to the adjournment of the Assembly for the summer recess.

Upon the return of the Legislature in the fall of 1978 the Committee resumed its activities. Seven meetings were held during the period November 1978 through February 1979. Three of these meetings were held after the Legislature was prorogued on December 15, 1978, as a result of the Committee requesting and receiving the authorization of the Assembly to meet in respect of the 1977-78 Report of the Provincial Auditor while the Legislature was not in session. The Committee submitted its final report of the Second Session to the Legislature on December 15, 1978. The recommendations contained in this report, together with the current status thereof, are included in Exhibit 8.

After commencement of the Third Session of the Thirty-First Parliament on March 6, 1979, the Committee held six meetings during the months of April and May. An interim report, calling for an analysis by the Provincial Auditor of the financial statements and budget of The Royal Ontario Museum, was submitted to the Assembly on May 31, 1979. As a result of this report, which was adopted by the Assembly on June 4, the Committee was authorized to hold further meetings subsequent to the adjournment of the Legislature on June 22 for the summer recess. These meetings were held on June 27 and 28.

16. Recommendations of the Standing Public Accounts Committee. For informational purposes, Exhibit 8 to this Report provides the current status of recommendations contained in all Reports of the Standing Public Accounts Committee to the Legislature from July 10, 1975 to December 15, 1977, to the extent that such recommendations were considered unresolved per Exhibit 9 of our 1977-78 Report.

Exhibit 8 also summarizes the current status of all recommendations contained in the Committee's Reports to the Legislature dated June 22, 1978, December 15, 1978 and May 31, 1979.

COMMENTS ON THE CONSOLIDATED REVENUE FUND

17. Introductory Comments. As explained in the "Summary of Significant Accounting Policies" contained in Exhibit 1 of this Report, the transactions of the Province are presented through the Consolidated Revenue Fund in summary form according to the three distinct areas of government activity:

- "Budgetary Transactions" are operational activities involving the raising of revenue from various sources on the one hand, and the expenditure for various government programs on the other.
- "Non-Budgetary Transactions" are the lending, investment and trust administration functions.
- "Debt Transactions" are the borrowing and repayment transactions.

18. Statement of Consolidated Revenue Fund. The Statement of Consolidated Revenue Fund for the fiscal year ended March 31, 1979 is contained in Volume 1 of the Public Accounts and is reproduced in Exhibit 1 of this Report. The content of the Statement of Consolidated Revenue Fund may be summarized, to the nearest dollar, as follows:

	1978-79 \$	1977-78 \$
Payments into the Consolidated Revenue Fund:		
Budgetary Transactions		
Revenue	12,565,957,407	11,308,270,516
Non-Budgetary Transactions		
Receipts	502,767,935	320,829,794
Credits	491,343,908	420,944,613
Debt Transactions		
Proceeds of Loans	2,513,137,141	2,035,678,146
	<u>16,073,206,391</u>	<u>14,085,723,069</u>
Payments out of the Consolidated Revenue Fund:		
Budgetary Transactions		
Expenditure	14,156,942,763	13,129,483,713
Non-Budgetary Transactions		
Disbursements	1,128,377,143	948,938,160
Charges	122,378,449	124,983,475
Debt Transactions		
Retirements of Loans	193,635,698	137,920,247
	<u>15,601,334,053</u>	<u>14,341,325,595</u>
Increase (Decrease) in Consolidated Revenue Fund	471,872,338	(255,602,526)
Consolidated Revenue Fund: Beginning of year	548,333,166	803,935,692
Consolidated Revenue Fund: End of year	<u>1,020,205,504</u>	<u>548,333,166</u>

19. Payments into the Consolidated Revenue Fund. As indicated in the preceding summary these payments are classified as Revenue (Budgetary Transactions), Receipts and Credits (Non-Budgetary Transactions) and Proceeds of Loans (Debt Transactions). Revenue consists of moneys raised through taxation, premiums, fees, licences and permits, payments from the federal government under cost-shared programs and income from investments. Receipts are repayments received relative to the investment activities (loans, advances, etc.) of the Province,

while Credits are moneys received for allocation to the pension fund, deposit, trust and reserve account liabilities of the Province. Proceeds of Loans represent the moneys received from Provincial debenture issues and other borrowings.

20. Statement of Budgetary Revenue. The Statement of Budgetary Revenue is contained in Volume 1 of the 1978-79 Public Accounts and is reproduced as part of Exhibit 1 to this Report. Where necessary, the 1977-78 figures have been reclassified to conform with 1978-79 presentation. The content of the Statement of Budgetary Revenue, to the nearest dollar, may be summarized as follows:

	1978-79 \$	1977-78 \$	Increase (Decrease) \$
Taxation			
Personal income tax	2,735,207,351	2,446,688,816	288,518,535
Retail sales tax	1,716,902,630	1,926,536,587	(209,633,957)
Corporations tax	1,278,196,930	1,013,541,154	264,655,776
Other	1,175,895,868	1,243,635,746	(67,739,878)
	<u>6,906,202,779</u>	<u>6,630,402,303</u>	<u>275,800,476</u>
Other Revenue			
Premiums - Ontario Health Insurance Plan	977,228,232	829,934,952	147,293,280
Profits from Crown Corporations and Boards	402,000,000	398,300,000	3,700,000
Fees, licences and permits	544,517,867	485,587,084	58,930,783
Other	276,282,833	253,661,325	22,621,508
	<u>2,200,028,932</u>	<u>1,967,483,361</u>	<u>232,545,571</u>
Government of Canada			
Reimbursement of Expenditures and Other	2,787,857,922	2,062,485,418	725,372,504
Interest	671,867,774	647,899,434	23,968,340
	<u>12,565,957,407</u>	<u>11,308,270,516</u>	<u>1,257,686,891</u>

21. Additional Comments Re Budgetary Revenue. The following comments are presented for informational purposes:

TAXATION. The decrease in Retail Sales Tax revenue resulted from a reduction in retail sales tax rates from 7 per cent to 4 per cent, effective from April 11, 1978 for a period of six months, in order to stimulate the economy. This decrease in revenue is offset by a Government of Canada contribution, designated as Economic Stimulation, of \$288.6 million, representing two-thirds of the estimated cost of the tax reduction.

OTHER REVENUE - ONTARIO HEALTH INSURANCE PLAN PREMIUMS. Participants' premiums paid into the Plan increased from \$829.9 million in 1977-78 to \$977.2 million in 1978-79 due mainly to an increase in family premium rates from \$32 to \$38 per month and single rates from \$16 to \$19 per month, effective with premiums due May 1, 1978.

OTHER REVENUE - PROFITS FROM CROWN CORPORATIONS AND BOARDS. Revenue transferred to the Consolidated Revenue Fund during the year from the profits of the Liquor Control Board of Ontario amounted to \$356 million. The comparable figure for the preceding year was \$327.3 million.

Wintario Lottery proceeds paid into the Consolidated Revenue Fund in accordance with section 9 of The Ontario Lottery Corporation Act, 1974, totalled \$46 million (1977-78, \$71 million). Section 9 of the Act further provides that such profits "be available for the promotion and development of physical fitness, sports, recreational and cultural activities and facilities therefor". During the year ended March 31, 1979 payments by the Ministry of Culture and Recreation in the form of grants for projects, facilities and events amounted to \$69.1 million (1977-78, \$62.3 million). The statement of "Wintario Proceeds" is shown on page 81 of Volume 1 of the 1978-79 Public Accounts.

GOVERNMENT OF CANADA. An increase of \$392.4 million in payments received under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 (Canada), and \$288.6 million received with respect to the aforementioned Economic Stimulation, accounted for a substantial portion of the net increase of \$725.4 million in revenue from Canada for the 1978-79 fiscal year.

INTEREST ON LOANS, ADVANCES AND INVESTMENTS. The sources of interest revenue are more fully detailed on page 29 of Volume 1 of the 1978-79 Public Accounts.

Major sources of revenue were interest on advances to Ontario Hydro amounting to \$244.4 million and interest on advances to The Ontario Education Capital Aid Corporation and The Ontario Universities Capital Aid Corporation of \$94.7 million and \$89.4 million respectively.

22. Non-Budgetary Transactions, Receipts and Credits. Details of Receipts and Credits, totalling \$502,767,935 and \$491,343,908 respectively for the 1978-79 fiscal year, are shown on pages 34-35 and pages 37-39 of Volume 1 of the Public Accounts. Comments with respect to certain receipt and credit items are contained in the Comments on Assets and Liabilities, sections 34-35 and 37-39 respectively of this Report.

23. Debt Transactions, Proceeds of Loans. Details of Proceeds of Loans totalling \$2,513,137,141 for the 1978-79 fiscal year are shown on pages 43-44 of Volume 1 of the Public Accounts. These moneys resulted mainly from the issue of straight term and serial Ontario debentures maturing in the years 1996 to 2019.

24. Payments out of the Consolidated Revenue Fund. As indicated in the summary contained in section 18 these payments are classified as Expenditure (Budgetary Transactions), Disbursements and Charges (Non-Budgetary Transactions) and Retirements of Loans (Debt Transactions).

Budgetary Expenditure includes payments for goods and services, salaries, interest on public debt, subsidies and grants, and acquisition or construction of fixed assets. Disbursements are payments made in respect of investments, loans and advances, while Charges are payments made from pension funds, deposit, trust and reserve accounts. Retirements of Loans are payments in respect of the debt obligations of the Province.

Payments out of the Consolidated Revenue Fund are of two major types: those pursuant to Estimates, including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by legislation cited as The Supply Act, may be augmented by Management Board Orders. The nature of Management Board Orders is more fully explained in section 81.

A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of this authority is more fully explained in section 82.

A summary of the payments out of the Consolidated Revenue Fund by type and classification is as follows:

<i>Payments re</i>	<i>1978-79</i> \$	<i>1977-78</i> \$
Voted Appropriations		
Per Legislative Assembly		
Budgetary Expenditure	12,443,538,823	11,550,291,847
Disbursements	233,138,843	307,144,430
Charges	—	—
	<u>12,676,677,666</u>	<u>11,857,436,277</u>
Per Management Board Orders		
Budgetary Expenditure	53,738,119	151,206,380
Disbursements	—	—
Charges	—	—
	<u>53,738,119</u>	<u>151,206,380</u>
Total Voted Appropriations	<u>12,730,415,785</u>	<u>12,008,642,657</u>
Statutory Appropriations		
Budgetary Expenditure	1,659,665,821	1,426,885,486
Disbursements	895,238,300	641,793,730
Charges	122,378,449	124,983,475
Retirements of Loans	193,635,698	137,920,247
Total Statutory Appropriations	<u>2,870,918,268</u>	<u>2,331,582,938</u>
Special Warrants		
Budgetary Expenditure	—	1,100,000
Disbursements	—	—
Charges	—	—
Total Special Warrants	<u>—</u>	<u>1,100,000</u>
Total Payments	<u>15,601,334,053</u>	<u>14,341,325,595</u>

25. Comparison of Authorized and Actual Payments — Voted Appropriations.

This comparison for the fiscal year ended March 31, 1979 is as follows:

	<i>Authorized</i> \$	<i>Actual</i> \$	<i>Actual</i> <i>Under (Over)</i> <i>Authorized</i> \$
Voted Appropriations			
Per Legislative Assembly			
Budgetary Expenditure	12,782,651,900	12,443,538,823	339,113,077
Disbursements	278,506,000	233,138,843	45,367,157
Charges	—	—	—
	<u>13,061,157,900</u>	<u>12,676,677,666</u>	<u>384,480,234</u>
Per Management Board Orders			
Budgetary Expenditure	64,771,438	53,738,119	11,033,319
Disbursements	—	—	—
Charges	—	—	—
Total Voted Appropriations	<u>13,125,929,338</u>	<u>12,730,415,785</u>	<u>395,513,553</u>

It will be noted that the amount of \$13,061,157,900 appropriated by the Legislative Assembly in itself exceeded the total actual payments of \$12,730,415,785. Where individual votes and items were of insufficient amount, funds in excess of those authorized by the Legislative Assembly were made available under the authority of Management Board Orders.

26. Statutory Appropriations. During the 1978-79 fiscal year Statutory Appropriation payments made under the authority of 28 Acts exceeded \$2.8 billion. This expenditure constituted 18.4 per cent of the total payments out of the Consolidated Revenue Fund. Comparative percentages for the 1977-78 and 1976-77 fiscal years were 16.2 and 15.8 respectively.

A summary, by authorizing legislation, of the five highest accumulated payments follows:

	<i>1978-79</i> \$	<i>1977-78</i> \$
The Financial Administration Act	1,695,174,286	1,430,152,527
The Power Corporation Act	750,000,000	450,000,000
The Teachers' Superannuation Act	120,360,707	109,017,608
The Ontario Education Capital Aid Corporation Act	70,922,000	80,992,000
The Public Service Superannuation Act	70,668,048	57,162,799
	<u>2,707,125,041</u>	<u>2,127,324,934</u>

Expenditure under the above Acts accounted for 94.3 per cent and 91.2 per cent respectively of total Statutory Appropriation payments made in fiscal years 1978-79 and 1977-78. Public Debt interest expenditure of \$1.474 billion and \$1.242 billion for fiscal years 1978-79 and 1977-78 respectively is included in the amount shown under The Financial Administration Act.

For reference purposes, 1978-79 statutory payment activity is summarized in Exhibit 3 of this Report.

27. Statement of Budgetary Expenditure. The Statement of Budgetary Expenditure is contained in Volume 1 of the 1978-79 Public Accounts and is reproduced in Exhibit 1 to this Report. A more detailed analysis of total budgetary expendi-

ture can be obtained by the use of the standard accounts classifications. Under these classifications the budgetary expenditure for the fiscal years 1978-79 and 1977-78, as shown on page 33 of Volume 1 of the Public Accounts for both years, may be summarized as follows:

	1978-79 \$	%	1977-78 \$	%
Transfer Payments	10,061,275,409	71.1	9,385,395,736	71.5
Other Transactions				
— Public debt expenditure (interest on debentures, etc.)	1,474,278,966	10.4	1,242,223,349	9.5
— Other	48,594,067	.4	65,231,183	.5
Salaries and Wages	1,347,377,552	9.5	1,294,098,586	9.8
Services	471,583,926	3.3	453,753,264	3.4
Acquisition/Construction of Physical Assets	371,182,289	2.6	352,189,144	2.7
Supplies and Equipment	260,652,473	1.9	248,740,212	1.9
Employee Benefits	226,756,531	1.6	192,067,988	1.5
Transportation and Communication	102,571,585	.7	94,348,429	.7
	14,364,272,798		13,328,047,891	
Less: Recoveries from other Activities, Ministries, etc.	207,330,035	(1.5)	198,564,178	(1.5)
Total Budgetary Expenditure	<u>14,156,942,763</u>	<u>100.0</u>	<u>13,129,483,713</u>	<u>100.0</u>

Transfer payments represent expenditure made to individuals, organizations and other levels of government, and for which the Province does not directly receive goods or services. Such expenditure is made in accordance with legislation or established Ministry policy.

Recoveries from other Activities and Ministries relate mainly to costs incurred by certain Ministries, on behalf of other Ministries, which are subsequently recovered from the benefiting Ministries. For Public Accounts presentation purposes, these recoveries are generally not netted against the particular expenditure category or sub-category (e.g. salaries and wages, services, etc.) but are deducted in total from aggregate expenditure.

The other standard accounts classifications are largely self-explanatory; however, a more detailed description of the type of expenditure included in each classification is contained on pages 8-9 of Volume 1 of the 1978-79 Public Accounts.

In 1978-79 over \$7.3 billion, or more than 73 per cent of the total transfer payments, was expended by three Ministries. The comparable figures for 1977-78 were \$6.8 billion and 73 per cent, respectively. A summary of the payments by the three Ministries, including identification of major categories, is as follows:

Ministry	Category	1978-79 \$	1977-78 \$
Health	Operation of hospitals and related facilities	2,054,231,727	1,989,221,255
	Payments re physicians' and practitioners' services under O.H.I.P.	1,023,264,293	898,159,771
	Other transfer payments	606,506,804	490,994,872
		<u>3,684,002,824</u>	<u>3,378,375,898</u>

<i>Ministry</i>	<i>Category</i>	<i>1978-79</i> \$	<i>1977-78</i> \$
Education	General Legislative Grants (payments to school boards)	1,968,800,648	1,870,439,058
	Payments to Teachers' Super- annuation Commission	329,504,182	379,900,632
	Other transfer payments	15,502,286	15,120,514
		<u>2,313,807,116</u>	<u>2,265,460,204</u>
Colleges and Universities	Grants for Universities and related organizations	848,973,429	791,570,018
	Grants for Colleges of Applied Arts and Technology, etc.	417,334,697	376,099,170
	Other transfer payments	86,720,083	73,031,339
		<u>1,353,028,209</u>	<u>1,240,700,527</u>
Total		<u>7,350,838,149</u>	<u>6,884,536,629</u>

28. Summary of Budgetary Expenditure by Ministry. The following summary compares, by Ministry, Budgetary Expenditure for the 1978-79 fiscal year with that for the 1977-78 fiscal year. Comparative figures have been reclassified where necessary to conform to 1978-79 presentation.

<i>Ministry</i>	<i>1978-79</i> \$	<i>1977-78</i> \$	<i>Increase</i> <i>(Decrease)</i>
Office of the Lieutenant Governor	107,254	96,130	11,124
Office of the Assembly	21,926,615	29,750,864	(7,824,249)
Office of the Premier	1,580,182	1,517,195	62,987
Cabinet Office	1,006,133	893,425	112,708
Management Board of Cabinet	8,467,838	7,845,993	621,845
Office of the Provincial Auditor	2,028,193	1,907,010	121,183
Office of the Ombudsman	3,790,418	4,128,962	(338,544)
Government Services	253,550,896	271,359,933	(17,809,037)
Northern Affairs	125,412,689	113,362,903	12,049,786
Revenue	193,747,139	194,523,637	(776,498)
Treasury and Economics	1,495,663,316	1,262,038,900	233,624,416
Intergovernmental Affairs	509,616,272	389,549,402	120,066,870
Justice Policy	615,565	428,698	186,867
Attorney General	140,123,920	129,189,269	10,934,651
Consumer and Commercial Relations	63,259,178	63,381,348	(122,170)
Correctional Services	130,006,832	118,469,588	11,537,244
Solicitor General	167,532,034	152,878,009	14,654,025
Resources Development Policy	3,088,265	3,199,075	(110,810)
Agriculture and Food	173,463,922	169,807,375	3,656,547
Energy	9,425,398	7,350,459	2,074,939
Environment	122,069,175	113,478,961	8,590,214
Housing	167,074,993	171,788,921	(4,713,928)
Industry and Tourism	59,515,903	53,413,037	6,102,866
Labour	34,343,751	29,348,017	4,995,734
Natural Resources	246,388,247	243,107,230	3,281,017
Transportation and Communications	1,068,382,430	1,034,936,086	33,446,344
Social Development Policy	2,149,251	2,113,854	35,397
Colleges and Universities	1,370,873,736	1,257,374,839	113,498,897
Community and Social Services	1,225,737,460	1,136,837,895	88,899,565
Culture and Recreation	206,964,997	191,471,166	15,493,831
Education	2,390,929,708	2,343,262,196	47,667,512
Health	3,958,101,053	3,630,673,336	327,427,717
	<u>14,156,942,763</u>	<u>13,129,483,713</u>	<u>1,027,459,050</u>

29. Additional Comments Re Budgetary Expenditure. The following comments are presented for informative purposes:

OFFICE OF THE ASSEMBLY. In 1978-79 the statutory payments under The Election Act were \$0.7 million. In 1977-78 statutory payments under The Election Act were \$12.1 million and reflected the costs of the Provincial Election of May 26, 1977. Offset against this decrease was a payment of \$3.2 million, including interest, made in the current year to eliminate the actuarial deficiency of the Legislative Assembly Retirement Allowances Account as at March 31, 1978.

GOVERNMENT SERVICES. The Provision of Accommodation Program was the major expenditure of the Ministry. This program provided accommodation for ministries and agencies of the Ontario Government. Budgetary expenditure on the program for 1978-79 totalled \$136.4 million.

During the year, the Province changed its practice regarding the allocation and recovery of annual contributions in respect of the unfunded liabilities of the Public Service Superannuation Fund. As a result, current year payments of \$55 million, which previously would have been charged in their entirety to Government Services, were, in part, allocated among all the Ministries and, in part, recovered from certain government agencies whose employees are contributors to the Fund.

TREASURY AND ECONOMICS. Public Debt interest payments on securities issued and other borrowings totalled \$1.474 billion and represented 98.6 per cent of the Ministry's budgetary expenditure. The comparable amount for the preceding year was \$1.242 billion, representing 98.4 per cent of the Ministry's budgetary expenditure.

INTERGOVERNMENTAL AFFAIRS. In 1978-79 the Local Government Affairs Program expended \$507.5 million or 99.6 per cent of total Ministry budgetary expenditure. Comparable figures for 1977-78, as restated, were \$386.9 million and 99.3 per cent respectively. This program provides studies, assistance and proposals to the Government for changes in the system of local government. It also advises and assists local governments on various matters and participates with the Ministry of Treasury and Economics in the development of transfer payment policies and the administration of such payments.

CONSUMER AND COMMERCIAL RELATIONS. In the current year the Ministry changed its practice of recording the recovery of the Motor Vehicle Accident Claims Fund administrative expenses as Reimbursement of Expenditures in the ministry's Statement of Budgetary Revenue. The recovery of expenses for the fiscal year 1978-79, amounting to \$3,152,195, was recorded as a reduction in expenditure Vote 1402, Commercial Standards Program, Motor Vehicle Accident Claims Fund Activity.

NATURAL RESOURCES. Budgetary expenditure on the Land Management Program, \$92.2 million, Outdoor Recreation Program, \$60.8 million, and the Resource Products Program, \$58.9 million accounted for 86 per cent of the Ministry's budgetary expenditure for the year. These programs respectively provide for the administration and protection of Crown lands and waters, opportunities for a wide variety of outdoor recreation and for the production and harvest of renewable natural resources.

TRANSPORTATION AND COMMUNICATIONS. The major areas of budgetary expenditure in 1978-79 were the Provincial Roads Program, \$413.6 million, Municipal Roads Program, \$364.4 million, and the Municipal Transit Program, \$137.9 million. These programs included construction and maintenance of the Provincial road network and assistance to municipalities for municipal roads and urban transit systems.

COLLEGES AND UNIVERSITIES. Transfer payments amounted to \$1.353 billion and represented 98.7 per cent of the Ministry's budgetary expenditure. Grants to Universities and related organizations amounted to \$849.0 million, while grants to Colleges of Applied Arts and Technology and other organizations amounted to \$417.3 million.

COMMUNITY AND SOCIAL SERVICES. Transfer payments totalled \$981.6 million and represented 80.1 per cent of the Ministry budgetary expenditure. Of these transfer payments, \$725.0 million was expended by the Social Resources Program in providing financial assistance and social services to persons in need, and included payments for vocational rehabilitation, as well as residential care, social and recreational centres for the aged.

CULTURE AND RECREATION. Transfer payments amounted to \$176.9 million and represented 85.5 per cent of the Ministry's budgetary expenditure. Under the Wintario Program grants of \$69.6 million were provided to finance various projects, facilities and events across the Province.

EDUCATION. Transfer payments totalled \$2.314 billion and represented 96.8 per cent of the Ministry's budgetary expenditure in 1978-79. The General Legislative Grants transfer payment under the School Business and Finance activity of the Education Program amounted to \$1.969 billion, an increase of \$98 million over the prior year.

The Ministry's budgetary expenditure of \$2.391 billion was 16.9 per cent of the total budgetary expenditure of the Province for the year.

Budgetary expenditure on education by both the Ministry of Education and the Ministry of Colleges and Universities amounted to \$3.762 billion, or 26.6 per cent of total budgetary expenditure of the Province for the year. The comparable figures for the preceding year, as restated, were \$3.601 billion and 27.4 per cent.

HEALTH. Transfer payments amounted to \$3.684 billion and represented 93.1 per cent of the Ministry's budgetary expenditure in 1978-79. Payments made for operation of hospitals and related facilities, \$2.054 billion, and for care provided by physicians and practitioners under the Ontario Health Insurance Plan, \$1.023 billion, accounted for 83.5 per cent of the total transfer payments. The specified payments increased by \$65 million and \$125 million, respectively, in 1978-79, accounting for 58.1 per cent of the increase in the Ministry's total budgetary expenditure for the year. The Ministry's budgetary expenditure of \$3.958 billion was 28 per cent of the total budgetary expenditure of the Province for the year. Comparable figures for the preceding year, as restated, were \$3.631 billion and 27.7 per cent.

30. Non-Budgetary Transactions, Disbursements and Charges. Disbursements may be summarized as follows:

<i>Disbursements re</i>	<i>1978-79</i> \$	<i>1977-78</i> \$
Voted Appropriations		
Per Legislative Assembly	233,138,843	307,144,430
Per Management Board Orders	—	—
	<u>233,138,843</u>	<u>307,144,430</u>
Statutory Appropriations	895,238,300	641,793,730
Special Warrants	—	—
	<u>1,128,377,143</u>	<u>948,938,160</u>

An increase in advances made to Ontario Hydro, from \$450,000,000 in 1977-78 to \$750,000,000 in 1978-79, represented the major change in Disbursements from Statutory Appropriations during the year.

Details of Disbursements are shown on page 36 of Volume 1 of the 1978-79 Public Accounts. Comments with respect to certain disbursement items are contained in the Comments on Assets and Liabilities, sections 34-35 of this Report.

Charges for 1978-79 totalled \$122,378,449 (1977-78 — \$124,983,475), all of which were paid out of Statutory Appropriations.

Details of Charges are shown on pages 40-42 of Volume 1 of the 1978-79 Public Accounts. Comments with respect to a number of charge items are included in the Comments on Assets and Liabilities, sections 37-39 of this Report.

31. Debt Transactions, Retirements of Loans. Details of Retirements of Loans totalling \$193,635,698 for the 1978-79 fiscal year are shown on pages 45-46 of Volume 1 of the Public Accounts. These payments relate to the redemption of Ontario debentures.

COMMENTS ON ASSETS AND LIABILITIES

32. Introductory Comments. As explained in the "Summary of Significant Accounting Policies" outlined in Exhibit 1 of this Report, the financial statements of the Province reflect a modified cash basis of accounting. In addition, Provincial expenditure on fixed assets is treated as non-recoverable expenditure of each fiscal year. As a result, the Statement of Assets and Liabilities does not include assets such as buildings, land or accounts receivable nor liabilities such as accounts payable. However, memorandum records of certain of these assets and liabilities are maintained for internal control purposes. The memorandum accounts for Accounts Receivable and Accounts Payable at March 31, 1979 are shown in Volume 1 of the 1978-79 Public Accounts, pages 83-86.

33. Statement of Assets and Liabilities. The Statement of Assets and Liabilities as at March 31, 1979, as shown in Volume 1 of the 1978-79 Public Accounts, is included in Exhibit 1 of this Report. The body of the Statement, to the nearest million dollars, is reproduced here for reference purposes.

<i>Assets</i>	<i>1979</i> <i>(\$ millions)</i>	<i>1978</i> <i>(\$ millions)</i>
Cash, temporary investments and marketable securities (Note 1)	1,020	548
Advances to Ontario Hydro (Note 2)	3,573	2,926
Advances and investments — other corporations, boards and commissions (Note 3)	4,340	4,455
Investments in water treatment and waste control facilities (at cost less recoveries) (Note 4)	975	880
Loans to municipalities	342	325
Other loans and investments (Note 5)	250	269
Total recorded assets	10,500	9,403
Net debt	9,569	7,978
	<u>20,069</u>	<u>17,381</u>
<i>Liabilities</i>		
Deposits with The Province of Ontario Savings Office	406	345
Pension funds (Note 6)	1,567	1,336
Deposit, trust and reserve accounts	399	322
Advances payable	91	112
Treasury bills	325	130
Debentures and notes (Note 7)	17,281	15,136
	<u>20,069</u>	<u>17,381</u>
Contingent liabilities (Note 8)	<u>6,734</u>	<u>6,212</u>

Comments on certain assets and liabilities, supplementary in nature to information contained in the notes to the financial statements and schedules appearing in the Public Accounts, are made in succeeding sections of this Chapter. Amounts referred to in these comments have been rounded to the nearest dollar, since many of these amounts are less than \$1 million in magnitude.

34. Advances and Investments—Other Corporations, Boards and Commissions. The balances included under this heading, with comparable balances for the preceding year, and the financial activity during the 1978-79 fiscal year were as follows:

	March 31, 1978 \$	Advances/ Investments Made \$	Repayments Received \$	March 31, 1979 \$
The Ontario Education Capital Aid Corporation	1,273,701,814	70,922,000	67,175,249	1,277,448,565
The Ontario Universities Capital Aid Corporation	1,232,294,739		28,357,017	1,203,937,722
Ontario Mortgage Corporation	758,162,400	15,462,000	143,585,300	630,039,100
Ontario Housing Corporation	348,666,013	(28,925,888 8,460,491*	34,134,699	351,917,693
Ontario Student Housing Corporation	8,475,314		(14,823 (8,460,491*	
Ontario Land Corporation	332,250,000	14,750,000	1,837,603	345,162,397
Ontario Energy Corporation	100,146,079	20,356,527		120,502,606
Ontario Development Corporation	90,558,679	16,300,000	12,351,200	94,507,479
Northern Ontario Development Corporation	47,088,019	8,450,000	5,235,002	50,303,017
Eastern Ontario Development Corporation	40,739,455	15,250,000	2,132,940	53,856,515
Ontario Northland Transportation Commission	72,707,935			72,707,935
The Ontario Junior Farmer Establishment Loan Corporation	63,906,560		4,581,804	59,324,756
The Ontario Municipal Improve- ment Corporation	42,616,008	1,125,000	4,658,144	39,082,864
Liquor Control Board of Ontario	25,074,515			25,074,515
Urban Transportation Develop- ment Corporation Ltd.	6,000,000			6,000,000
The Crop Insurance Commission of Ontario	10,200,000		84,214	10,115,786
North Pickering Development Corporation	1,765,898		1,765,898	
Algonquin Forestry Authority	350,000		350,000	
	<u>4,454,703,428</u>	<u>200,001,906</u>	<u>314,724,384</u>	<u>4,339,980,950</u>

* At June 30, 1978, the Ontario Student Housing Corporation was dissolved. All assets and liabilities of the Corporation, including the \$8,460,491 liability for advances from the Province, were assumed by the Ontario Housing Corporation.

Financial statements of these Corporations, Boards and Commissions, are shown in Volume 2 of the 1978-79 Public Accounts.

Explanatory comment relative to the nature of these Corporations, Boards and Commissions, and to the terms of the relative advances and investments made by the Province, is contained on pages 48-49 of Volume 1 of the 1978-79 Public Accounts.

It should be emphasized that the preceding figures represent recorded balances only, and do not necessarily represent the amounts the Province expects to truly realize.

For example, advances to The Ontario Universities Capital Aid Corporation as at March 31, 1979 are repayable out of future years' Provincial expenditure appropriations. The Corporation employs funds advanced by the Province to purchase bonds and debentures issued by colleges, universities and related institutions

for capital construction purposes. The issuing institution then redeems its debentures, with interest, over their term, utilizing moneys appropriated by the Legislature for such purpose. The Corporation, in turn, utilizes redemption proceeds to repay, with interest, its advances from the Province.

Additionally, the situation with respect to the repayment of advances made by the Province to The Ontario Education Capital Aid Corporation is somewhat analogous to that outlined in the preceding paragraph. To a large extent, the advances by the Province to this Corporation are also repayable out of future years' Provincial expenditure appropriations.

Advances to Ontario Development Corporation and Northern Ontario Development Corporation as at March 31, 1979 included advances with respect to forgivable performance loans made by these Corporations in the outstanding amounts of \$9,372,129 and \$1,977,052 respectively. The major portion of advances by the Province to these Corporations with respect to forgivable performance loans is also repayable out of future years' Provincial expenditure appropriations.

Performance loans were made by these Corporations to persons establishing, or substantially expanding, an industrial undertaking in an area of equalization of industrial opportunity. Such loans are non-interest bearing and are subject to principal forgiveness. Forgiveness is contingent upon the borrower operating his business in a manner satisfactory to the Corporations. When borrowers' loan principal is forgiven, moneys appropriated by the Legislature for the purpose of loan forgiveness are utilized by the Corporations to repay their corresponding advance indebtedness with the Province.

The financial statements of The Crop Insurance Commission of Ontario, which appear in Volume 2 of the 1978-79 Public Accounts, show an accumulated deficit of \$12,294,656 as at March 31, 1979. Additionally, subsequent to March 31, the Commission has incurred substantial losses due to tobacco crop claims. Therefore, it is extremely doubtful that the Province will be able to recover the advances to the Commission of \$10,115,786 outstanding at March 31, unless recourse is made to future years' Provincial expenditure appropriations. See section 88 of this Report for further comment with regard to The Crop Insurance Commission of Ontario.

35. Loans to Municipalities. The balances included under this heading, with comparable balances for the preceding year, and the financial activity during the 1978-79 fiscal year were as follows:

	March 31, 1978 \$	Loans Made \$	Repayments Received \$	March 31, 1979 \$
Ontario Housing Action Program	84,012,797	20,240,102	1,121,227	103,131,672
Municipalities re tile drainage ..	69,782,001	17,870,700	8,957,700	78,695,001
Municipalities re municipal works assistance	56,570,932		4,301,919	52,269,013
Federal-Provincial Winter Capital Projects Fund	46,785,490		4,192,384	42,593,106
Federal-Provincial employment loans	14,553,600		690,600	13,863,000
Federal-Provincial special development loans	3,526,600		241,800	3,284,800
The Municipality of Metropolitan Toronto	44,220,000		1,695,000	42,525,000
The Shoreline Property Assistance Act, 1973	2,374,404	570,600	142,415	2,802,589
Township of Elliot Lake	1,814,900		349,000	1,465,900
Town of Kapuskasing	1,196,527		61,179	1,135,348
Township of Collingwood	116,826			116,826
Township of Amabel	109,399		197	109,202
The Moosonee Development Area Board	106,000		5,000	101,000
City of Windsor	50,000		50,000	
Improvement District of Manitouwadge	41,000		41,000	
	<u>325,260,476</u>	<u>38,681,402</u>	<u>21,849,421</u>	<u>342,092,457</u>

Explanatory comment with regard to these loans is contained on pages 49-50 of Volume 1 of the 1978-79 Public Accounts. Additional comment with regard to two of these loans follows:

Special assistance was provided in 1974-75 to the Townships of Collingwood and Amabel in the amounts of \$116,826 and \$110,000 respectively.

In the case of the Township of Collingwood the assistance was to prevent a substantially increased and inequitable tax burden on local taxpayers. The loan will evidently not be called until all the financial implications are known. A decision will then be made as to whether or not it will be repaid or forgiven. At March 31, 1979 the loan amount remained unchanged.

The assistance to the Township of Amabel was made to allay immediate financial difficulties being experienced as a result of its inability to collect tax arrears in respect of tenant occupied property on Indian Reserves. The agreement between the Province and the Township required that the Township make every reasonable effort to effect the collection of the tax arrears. All collections of such tax arrears are to be repaid to the Province. The rights and allegations of both parties under the agreement terminate on December 31, 1979. After repayments of \$601 in 1976-77 and \$197 in 1978-79, the outstanding balance was \$109,202 at March 31, 1979.

36. Net Debt. The Net Debt of the Province is the difference between assets and liabilities as recorded in accordance with the "Summary of Significant Accounting Policies" described in Exhibit 1. Year-to-year changes in Net Debt are related

directly to the amount by which budgetary revenue exceeds, or is less than, budgetary expenditure. Revenue was less than expenditure on budgetary transactions by \$1,590,985,356 for the 1978-79 fiscal year, with the result that Net Debt increased by that amount to \$9,568,960,523 as at March 31, 1979.

37. Deposits with The Province of Ontario Savings Office. These deposits are carried in twenty-one branches of the Savings Office throughout the Province. The liability of the Savings Office to depositors, with comparative balances for the preceding year, consisted of:

	<i>March 31, 1979</i>	<i>March 31, 1978</i>
	\$	\$
Current balances	405,693,296	345,221,366
Unclaimed balances	219,907	196,202
	<u>405,913,203</u>	<u>345,417,568</u>

It is the current practice of the Savings Office to transfer a deposit balance from a current classification to an unclaimed classification when no communication has been received from the depositor, and no activity has taken place in the account, for a five year period.

The financial statements of The Province of Ontario Savings Office are shown on pages 78-80 of Volume 1 of the 1978-79 Public Accounts.

38. Pension Funds. The balances included under this heading, with comparative balances for the preceding year, and financial activity during the 1978-79 fiscal year, were as follows:

	<i>March 31, 1978</i>	<i>Credits</i>	<i>Charges</i>	<i>March 31, 1979</i>
	\$	\$	\$	\$
Public Service Superannuation Fund	1,323,991,531	298,184,649	70,668,048	1,551,508,132
Legislative Assembly Retirement Allowances Account	11,969,444	4,482,528	686,435	15,765,537
	<u>1,335,960,975</u>	<u>302,667,177</u>	<u>71,354,483</u>	<u>1,567,273,669</u>

The balances in the Public Service Superannuation Fund and in the Legislative Assembly Retirement Allowances Account have been deposited with the Treasurer of Ontario.

The Superannuation Adjustment Fund, which was established in 1975-76, is not reflected under the "Pension funds" heading in the Statement of Assets and Liabilities; instead, it is included under the caption of "Deposit, trust and reserve accounts".

39. Deposit, Trust and Reserve Accounts. During the 1978-79 fiscal year \$128,181,096 was paid into these accounts while \$51,023,966 was paid out. A balance of \$399,397,942 was outstanding at March 31, 1979.

Deposit, Trust and Reserve Accounts are itemized in Volume 1 of the 1978-79 Public Accounts on pages 52-53. Comment with respect to several of the larger

accounts is also contained in the Public Accounts. Numerous other accounts, however, are included in the Deposit, Trust and Reserve Accounts category. Background on the following accounts is presented for informative purposes.

TIMBER LICENCEE'S FUNDS HELD IN TRUST — \$391,256

On pages 36-37 of last year's Report, comment was made in regard to the above account. For ease of reference, most of this comment has been repeated, along with additional information to support its current status.

In order to protect Crown charges in excess of \$682,000 owing by a lumber company for stumpage fees, forest products in the form of logs and lumber were seized by the Province. A chartered bank also made a claim against the forest products. The question of ownership was left to the courts to decide. With the approval of the chartered bank and the Ministry of the Attorney General, the seized products were sold in 1976 and the proceeds placed in a special interest bearing account designated as Timber Licencee's Funds Held in Trust. Additionally, in response to correspondence from the Minister of Natural Resources, some debtors paid to the Treasurer of Ontario amounts owing to the lumber company. At March 31, 1977 these payments amounted to \$4,288 out of a total of \$100,630 owing. The balance on deposit in the special interest bearing account at March 31, 1977 was \$391,256. As there have been no transactions through this trust account for the past two fiscal years, the balance remained at \$391,256 as at March 31, 1979.

We have been informed by the Ministry of Natural Resources that a court action dealing with the question of ownership and distribution of the sales proceeds has not been finalized and that the Ministry of the Attorney General has been contacted regarding the disposition of the case.

The Ministry additionally advised us that the chartered bank also sent a letter, similar to that of the Ministry, to the debtors of the lumber company. As a result, some payments were received during the 1977-78 fiscal year but no further payments have been received in 1978-79. The payments were deposited by the bank into trust accounts to await the outcome of the court action referred to in the preceding paragraph.

LOTO CANADA TRUST ACCOUNT

This Account was established by Order in Council dated March 16, 1977 for the purpose of receiving deposits of the Ontario portion of the proceeds from the sale of lottery tickets by Loto Canada Inc. Her Majesty in Right of Canada has authorized the payment to Ontario "of an amount not to exceed 12.5% of the amount being held to the credit of the government of the Province of Ontario in proportion to the number of tickets sold by Loto Canada Inc. in Ontario for 'Loto Canada' in the three month period immediately preceding the month of payment".

The Loto Canada Trust Account is administered by the Minister of Culture and Recreation. It is the responsibility of the Ministry of Culture and Recreation to see that all payments made from the Account are applied for the purposes set out from time to time by Order of the Lieutenant Governor.

From the inception of the Account to March 31, 1979, \$5,606,254 has been received for deposit and a similar amount has been paid out. A grant of \$660,705 authorized by Order in Council dated March 30, 1977, was made to the Municipality of Metropolitan Toronto. The payment represented one-half of the interest payments incurred by Metropolitan Toronto prior to January 1, 1977 relating to the expansion of the Metropolitan Toronto Stadium. The remainder of \$4,945,549 was paid to the Municipality of Metropolitan Toronto under the authority of an Order in Council dated February 21, 1979 which provided for a repayable grant to assist in the construction costs involved in expanding the Stadium. The Order in Council authorized the Minister of Culture and Recreation to enter into an agreement with the Municipality of Metropolitan Toronto whereby all revenues received by the Province from Loto Canada Inc. from April 1, 1976 onwards were to be paid to Metropolitan Toronto until a principal amount of \$8,513,126, together with the additional amount of \$660,705 previously paid with respect to interest payments, was reached. No interest is to be paid by the Province to Metropolitan Toronto with respect to the maximum principal amount of \$8,513,126, nor will the Province charge any interest to Metropolitan Toronto with respect to any amounts paid to the municipality.

Metropolitan Toronto has agreed to pay to the Province one-half of the increased profits attributable to the expansion of the stadium. The repayments, based on the preceding year's profits, are to be made no later than March 31 of each year. Commencing in 1980, the repayments will continue until such time as the total principal amount of \$8,513,126 has been repaid. If Metropolitan Toronto has not received the total principal amount of \$8,513,126 before it commences repayment in 1980, it is entitled to set off the profits payable to the Province, against the outstanding amounts receivable from the Province, until such time as the total principal amount has been received.

RESERVE FOR OUTSTANDING CHEQUES — VARIOUS MINISTRIES

During the 1978-79 fiscal year, the use of Reserves for Outstanding Cheques accounts for Accountable Advances (imprest fund) cheques by most ministries was discontinued in order to simplify the accounting treatment for these relatively minor transactions. The discontinuation did not apply to Ontario Health Insurance Plan cheques or to Treasury cheques because of their large dollar significance.

Previously, cheques outstanding for lengthy periods were removed from bank reconciliations by depositing the funds in the reserve account. The revised procedures provide for the amounts representing cheques removed from bank reconciliations to be credited to a miscellaneous revenue account. If a reissue of any cheques so removed is required, a charge will be made to miscellaneous revenue. Notwithstanding the above transactions, the ministries involved will continue to maintain memorandum records of the outstanding cheques removed from the bank reconciliations. The implementation of these procedures resulted in the transfer of \$91,699, representing the reserves for outstanding cheques for various ministries as at March 31, 1978, from the reserve accounts to miscellaneous revenue during the 1978-79 fiscal year.

40. Debentures and Notes. During the 1978-79 fiscal year, proceeds and repayments of debentures and notes totalled \$2,325,411,647 and \$180,438,450 respectively, leaving a balance of \$17,280,546,001 outstanding at March 31, 1979.

Details of debentures and notes outstanding are shown on pages 55-59 of Volume 1 of the 1978-79 Public Accounts. A summary by years of maturity and currency in which the debenture liability is repayable is included in Exhibit 1 (note 7 to the financial statements) of this Report.

41. Contingent Liabilities. Contingent liabilities totalled \$6,734,386,680 as at March 31, 1979. Details thereof, to the nearest million dollars, are summarized in Note 8 to the financial statements, which has been reproduced as part of Exhibit 1 to this Report.

In previous years, the portion of Provincially guaranteed Ontario Hydro bonds held by the Province as investments at year-end, was deducted in the determination of total contingent liabilities. For the current year, this practice was changed, and no such deduction was made.

This change had the effect of increasing the March 31, 1979 total contingent liabilities by \$42,110,000 (\$42 million for purposes of Note 8). As a result, the 1977-78 comparative amount for total contingent liabilities has been increased by \$59,651,000 (i.e. \$60 million) to conform with the revised basis of disclosure.

COMMENTS ON MINISTRY OPERATIONS

42. Introductory Comments. Most of the comments contained in this segment of the Report pertain to audit observations and recommendations relating to payments into and out of the Consolidated Revenue Fund. The audits on which the comments are based were completed since the date of our last Report and are listed in Exhibit 5.

43. Audit Memoranda. Memoranda on the various audits and examinations performed during the year were submitted to the Deputy Minister of each Ministry concerned. Observations and comments were made on matters noted during the conduct of the audits. Included in the memoranda were recommendations and suggestions for improvement in internal controls and general efficiency of the accounting and operating processes. The Deputy Ministers were asked to review the memoranda and to forward their comments on our findings and recommendations. This procedure provides each Ministry with an opportunity to question the position taken by this Office or to initiate immediate corrective action.

Matters which were raised in memoranda covering these audits, and which, in our considered opinion, should be brought to the attention of the Legislative Assembly, are included in subsequent sections of this Report. Not all of the subsequent comment is of a critical nature; certain comments are for informative purposes only. For the most part the caption of the section will indicate whether the content is of a critical or informative nature.

Pertinent replies received from the Ministries to the time of completion of this Report have been included for informative purposes, generally without further comment by this Office. Such replies will be reviewed during subsequent audits of the respective Ministries.

44. Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports. It is our practice to follow up on the status of suggested corrective action and recommendations at the time of our next audit of each Ministry. The status of suggested corrective action and recommendations contained in our 1977-78 Report is indicated in Exhibit 7 to this Report. Exhibit 7 also provides an update on the status of corrective action and recommendations considered unresolved per Exhibit 8 of our 1977-78 Report.

45. Current Relevance of Grants Queried, Ministry of Agriculture and Food. During an audit of Ministry expenditure, we noted a number of grant payments being made pursuant to long-existing authorities, one of which dates back forty-five years. Currently, expenditures for these programs are in token amounts and raised the question as to the need for their continuance. Examples included:

<i>Nature of Grant</i>	<i>Date of Order in Council</i>	<i>1977-78 Total Expenditure</i>
		\$
Local Poultry Associations	April 27, 1933	772
Encouragement of Livestock	December 20, 1946	12,121
Bull Premiums	June 2, 1966	814
Pure Bred Cattle Sales Assistance	June 16, 1966	3,984
Ram Premiums	December 31, 1966	3,500

We recommended that the objectives of these and other grants be reviewed to determine their current relevance, and whether the benefits derived are commensurate with the costs associated with administering the programs.

On June 6, 1979 the Deputy Minister advised us that these grants "*are presently under review*".

46. Refinements Needed in Management by Results Process, Ministry of Agriculture and Food. Management by Results (MBR) is a management technique for measuring the results of a plan of action by expressing program management objectives in appropriately measurable terms. As part of the MBR process, each Ministry is required to submit to Management Board of Cabinet statements of the results that are expected to be achieved by the use of the resources assigned to each program. During the course of an audit of the Ministry of Agriculture and Food, we reviewed the Ministry's MBR submissions to Management Board for the 1977-78 and 1978-79 fiscal years, resulting in the following observations:

(1) *Veterinary Services Branch*

Our review of programs within the Veterinary Services Branch revealed that certain planned results detailed in the MBR submissions to Management Board were stated in general rather than in specific terms which, if suitably quantified, would make measurement and evaluation of results possible. For example, the planned results for the Meat Inspection Program, under which payments totalled \$2,839,489 in 1977-78 and were estimated at \$3,530,714 for 1978-79, were stated as being: "to make the number of inspections required under The Meat Inspection Act (Ontario)."

From our review and discussions, it appeared that quantitative data such as a forecast of the number of animals to be inspected or the number of inspections could be identified as specific results to be achieved against which actual results could be measured. We therefore recommended that quantitative criteria or data be developed for the Ministry's programs presently lacking this information.

(2) *The Drainage Act Program*

The Drainage Act, 1975, provides for grants towards the cost of constructing, improving, repairing or maintaining drains upon lands used for agricultural purposes. Expenditures under this program for 1977-78 totalled \$5,206,700 with costs for 1978-79 being estimated at \$4,500,000.

Under section 7(1) of the Act a local municipal council or the Minister may require a benefit cost statement to be prepared for proposed drainage works. Grant files examined showed no evidence of such statements having been obtained. We felt that grant applications should be supported by benefit cost statements, where applicable, to ensure that projects are funded only if the benefits to be derived from the project would justify the costs involved.

(3) *The Tile Drainage Act Program*

The Tile Drainage Act, 1971, permits municipalities to borrow funds from the Treasurer of Ontario for the purpose of lending the money to owners of agricultural land for the construction of drainage works. A total of \$18,772,400 was disbursed in loans in 1977-78, and the Estimates for 1978-79 provided for disbursements of \$18 million.

The funds made available to the program are allocated to individual municipalities on the basis of a formula. We recommended that this method of fund allocation be reviewed, as the potential benefits of the program may be reduced by not recognizing special circumstances or need.

(4) *Capital Grants for Farm Development Program*

This program, which provides financial assistance to farmers for capital improvements on their farms in order to increase or maintain food production, commenced on April 1, 1967 and was due to terminate as at March 31, 1979. Grants paid from the inception of the program to March 31, 1978 totalled \$143 million, with 1978-79 costs being estimated at \$11 million.

An application for grant is approved for payment partly on the basis of an inspector's report. In our opinion, this report is an important element of internal control over the accuracy of the claim, as well as an assurance that expenditures are of a type which would help to achieve the objectives of the program. In a previous audit memorandum relating to transfer payments, disbursements and other transactions, we noted that comments by inspectors had not been entered on over 40 per cent of the applications reviewed. An internal audit report on transfer payments dated August 1978 also noted deficiencies in this area.

Should this program be renewed or similar programs implemented in future, we recommended that inspectors be required to make constructive recommendations or statements in their reports.

(5) *Verification of Municipal Records*

The Ministry performs verifications, on a test basis, of municipal records relating to construction of drains to ensure that funds are spent in accordance with The Drainage Act, 1975. The current rate of inspections (sixteen municipalities in six months) was well below the planned level. We therefore recommended that the rate of inspections be increased.

The Ministry's MBR report for 1977-78 indicated biennial verifications of municipal records in respect of municipal debentures issued to the Province under The Tile Drainage Act, 1971. Such verifications were not included in the Ministry's MBR report for 1978-79. We recommended that test examinations of municipal records be reinstated to ensure municipal compliance with the provisions of the Act.

The following reply was received from the Ministry on June 6, 1979:

(1) *Veterinary Services Branch*

"We are working to improve the quantitative information in future."

(2) *The Drainage Act*

"Benefit cost statements have not been requested previously and we do not think that the cost, in terms of both time and manpower, could be justified for all 800 drainage works undertaken each year. We do agree that in some cases they would be desirable and are developing criteria with the intent of requesting these statements where deemed appropriate."

(3) *Allocation of Tile Drainage Debentures*

"It is recognized that our current method of allocation may be less than ideal. We have, however, tried many systems over the past two or three years and feel that, despite its shortcomings, our present system is the most practical."

(4) *Capital Grants for Farm Development*

"We will work to improve the inspectors' statements in the new Farm Productivity Incentive Program which will replace the previous Capital Grants Program."

(5) *Verification of Municipal Records*

"An attempt will be made to improve our activity in this area as staffing constraints permit."

47. Apparent Overpayment to Terminated Employee, Ministry of the Attorney General. During a review of Ministry payroll records in May 1978, we noted that a member of the staff had been absent without official leave since May 8, 1977. The Ministry continued to pay this employee until December 25, 1977. No medical certificate was received declaring this absence was due to illness and the position was declared abandoned by the Ministry on March 16, 1978, effective May 8, 1977. At the time of our audit, the Ministry stated that, as a result, approximately \$19,500 had been overpaid to the employee. It was our opinion that a weakness in the reporting of attendance allowed this situation to occur.

On January 25, 1979 the Ministry responded as follows:

"The employee was a member of the Seconded Legal Services (with M.T.C.). The Payroll Section were unaware of the absence of the required medical certificate, since at that time this would have been retained in the employing Ministry. Since June, 1978, it has been a requirement that medical certificates be forwarded to the Payroll Section along with attendance reports, thus eliminating this aspect of the problem in future."

"Arrangements are being made to obtain the required certificate for the period during which (the employee) was ill."

48. Poor Controls over Inventories of Furniture and Equipment, Ministry of the Attorney General. As a result of observations and a review of Ministry records relating to furniture and equipment, we found control over physical inventories to be weak in the following instances:

1. Fourteen tagged items which the Ministry had under lease could not be located. According to the inventory listing the approximate value of these items was \$28,700. It was ascertained that these items had been returned to the lessor, but were not removed from the inventory listing.
2. The Finance and Services Branch periodically sends inventory lists to field offices requesting that they confirm the furniture and equipment items on hand and indicate any differences. We reviewed the results of this procedure carried out at September 30, 1977 for 26 field offices. It was found that returned lists from 7 field offices were not on file, and where differences were shown on some lists there was no indication of any subsequent action taken by the Finance and Services Branch.
3. We noted six instances of equipment purchased in February 1978 for which tag numbers had not been assigned.

A physical count was made of the furniture and equipment in the Information and Computer Systems Branch. A comparison with the inventory records as at May 31, 1978 disclosed the following:

- (a) seven items belonging to another branch were found in this branch;
- (b) nine items removed from the inventory listing were still in the possession of this branch;
- (c) eight items were found without tags;
- (d) twelve items listed on the inventory records could not be located during the physical count;
- (e) thirteen items belonging to a field office which was closed and its inventory returned to this branch could not be located.

We recommended that the branches be made aware of the need for control over movable assets in their possession. Most important in this respect was the need for branches and field offices to periodically reconcile these assets to the inventory records.

The Ministry subsequently replied as follows:

"The need for improvement in the system of inventory control is recognized, and corrective action is already in process. Specific discrepancies are being followed up, and will be properly adjusted."

49. Substantial Lack of Compliance with Guidelines and Other Matters Re Training in Business and Industry Program, Ministry of Colleges and Universities. The Training in Business and Industry (TIBI) program is funded by the Province through grants allocated to the Colleges of Applied Arts and Technology. The grants are paid on a lump sum basis in April of each fiscal year and are recorded

in the Ministry's accounts as part of the Grants for Operating Costs sub-activity. For the year ended March 31, 1979, such grants amounted to \$3,300,000.

The primary purpose of the TIBI program, as expressed in the Ministry guidelines, is to encourage the training of employees in occupational skills or to enhance existing skills. The goal of the program is improved employee efficiency, effectiveness and productivity.

The Colleges provide supervisory and financial assistance to clients for operating their own training activities. The Colleges may support up to one-third of the total value of a training activity, that is, one-third of the estimated cost of a specific program. The remaining value is made up by contributions from the employer and the trainees. The training is usually carried out at facilities supplied by the employer, but some training does take place at the Colleges.

The guidelines also specify that:

1. The development of portable skills is a necessary condition for TIBI funding approval.
2. Training which is funded in whole or in part, through other initiatives of the federal and provincial governments, is not eligible for TIBI support.
3. TIBI funding is intended to initiate, rather than sustain, training within the client organization.

We reviewed the 1978-79 enrolment reports on TIBI and found a substantial lack of compliance with the guidelines. Examples of training assistance which we considered ineligible or inappropriate are cited:

1. The support to several organizations was of a sustaining, rather than an initiating nature. Various organizations have received assistance for five or more years. A major communications company received assistance for 171 courses, many of which were similar in nature, involving 14,862 trainee days in 1978-79.
2. A provincial psychiatric hospital received assistance in connection with post diploma psychiatric nursing courses. Such training should be available through the hospital's continuing education programs.
3. General hospitals received assistance for new employees' orientation and other courses. We doubted whether such training fell into the category of portable skills.
4. A Board of Education received assistance for eight courses on emergency first aid. A ski patrol organization also received assistance for a first aid course. This training should be available from other sources.
5. Other sponsors receiving assistance of an ineligible or inappropriate nature included:
 - (a) an urban municipality and a meat packing firm — preparation for retirement,
 - (b) a federal government department — trade orientation,

- (c) foreign service officers — trade orientation seminar,
- (d) a large retail store — induction and terminal training,
- (e) a school board — folk dance workshop,
- (f) a Provincial Ministry — leisure workshop and fund-raising workshop, and
- (g) a judo association — fundamentals of judo.

The guidelines, as revised in March, 1978, require that Colleges submit an annual report on the achievement of TIBI priorities. Such reports were not evident during our review.

The 1978 guidelines stated that clients may receive up to \$10,000 in any year of TIBI funding. The records of a College reviewed by us during an inspection audit indicated payments exceeding \$10,000 had been made to four organizations in the fiscal year 1978-79. Further, the application of this rule does not prevent an organization receiving assistance from more than one College. For example, we noted that a large firm of retail stores received assistance from at least three Colleges in 1978-79.

The guidelines were further amended in February, 1979 to provide stricter financial control over the funds allocated to the Colleges. Commencing in the fiscal year 1979-80, the Colleges will be required to submit an annual statement of financial transactions under the program, and Provincial funding will not exceed the net cost to the College as a direct result of operating the program. Adjustments will therefore be made for unspent funds. Until March 31, 1979 the Colleges had been permitted to transfer any excess funds to their surplus accounts.

We questioned not only the propriety of some of the training assistance relative to the purpose and goal of the program, but also whether much of the training would have taken place irrespective of the assistance. Although we were informed that TIBI has the important side effect of bringing the Colleges in closer contact with employers for a better understanding of their requirements, we felt such understanding could be achieved through other channels. In this respect, we noted that the Colleges are involved in the administration of the Federal Government's Canada Manpower Industrial Training Program, which has a similar target group to that of TIBI.

The Report on the Special Program Review (November 1975) noted that the Training in Business and Industry program "appears to duplicate federal efforts in this field", and recommended that "the Government review the need to be involved in programs of manpower training other than those funded by the Federal Government". As far as we could determine, this recommendation has not been sufficiently considered, and we strongly recommended that it be addressed at this time.

If the program is to continue, we recommended that the Ministry take decisive action, including the employment of its internal audit services, to ensure compliance with the guidelines. In view of the significant total involved, we also recommended that the grants to the Colleges be made on an instalment basis extending throughout the fiscal year.

The preceding comments were included in a memorandum sent to the Ministry on September 27, 1979. As this Report is dated September 28, 1979, the Ministry did not have an opportunity to respond. Therefore, we are not in a position to present the Ministry's views on the subject matter.

50. Criteria and Other Matters Related to the Use of Consultants Queried, Ministry of Community and Social Services. The Audit Services Branch of the Ministry conducted audits on the use of consultants in a number of areas in the Ministry at the request of the Deputy Minister. The reports and memoranda resulting from these audits indicated a number of concerns regarding the wide-spread use of consultants, especially in the Children's Services Division.

The following matters were noted in our review of internal audit reports and contracts with consultants:

1. The price quoted in several agreements with consultants was just under \$15,000. The Audit Services Branch of the Ministry also reported on this situation, stating that contracts are restricted in time and objective apparently to keep them under this dollar limit, above which specific application for approval would have to be made to Management Board. The Ontario Manual of Administration states that all projects involving management consultants shall be tendered unless the estimated total costs are under \$15,000. The Executive Director of the Children's Services Division reported to the Deputy Minister on June 15, 1979 that there would be no further \$15,000 back-to-back projects undertaken within the Division, however justified they may have been or may be in the future in terms of the different nature of the projects.
2. Jobs tend to be more fragmented by arranging contracts with management consultants with estimated total costs under \$15,000 than would be the case if the tendering process was involved. Also, large firms of management consultants with expertise in various fields are less likely to be hired. We observed that a study on the funding of one particular type of institution involved several firms of management consultants, each with a single specialty such as computer systems or procedure manuals.
3. Certain former employees of this or other Ministries were hired as consultants. While we appreciated that such individuals probably have the required expertise because of the nature of their government employment, it is open to question whether their selection was completely unbiased in the absence of any tendering procedure. We observed that one senior employee of the Ministry resigned on April 30, 1979, registered his own management consulting business on that date, and was engaged as a consultant from May 1, 1979. His agreement covered a four-month period from that date at a stated fee of \$48,450, an amount which was subsequently increased by \$18,000. Since the amount payable under this agreement exceeded \$15,000, tenders should have been called prior to awarding the contract or specific Management Board approval obtained for not so doing.

4. The absence of the tendering process and the fragmentation of management studies lead to the engagement of consultants who are one-man operations and who, in view of the Audit Services Branch, have only one client — the Ministry of Community and Social Services. Our examination showed that in some cases individuals provided service on a continuous full-time basis, which lends support to the contention of the Audit Services Branch. The Audit Services Branch auditors also argued that engagements of the above nature appear to meet the criteria for employment as unclassified staff as provided in The Public Service Act and applicable Regulations, and we came to the same conclusion following a review of various agreements. The Executive Director of the Children's Services Division also reported on June 15, 1979 that, as at that date, individuals acting in a consulting capacity to the Division were being contracted under strict guidelines to observe the spirit and the intent of the Ontario Manual of Administration. This procedure was expected to ensure that individuals hired to perform services for the Ministry are paid as unclassified staff when appropriate.
5. When different aspects or phases of a job are performed by different management consultants or by the same consultant under a series of agreements, it becomes extremely difficult to arrive at the total cost of a job. No evidence was found in the course of our audit that such accumulation of costs was made.
6. Payments have been made to suppliers of services although agreements have not been completed. Provision of some of these services are extensions of prior contracts. Invoices have also been held by the Accounts Branch where no agreement is available or the maximum amount has been reached and an extension of the agreement is awaited.

The Ontario Manual of Administration contains a directive on the appointment and control of management consulting services. Based on our audit of expenditures for Services, in addition to the requirements of this directive, we recommended that:

1. agreements be in a form approved by the Legal Services Branch, and a standard form of agreement be considered;
2. work to be done be detailed in the agreement and the terms of reference clearly defined;
3. agreements be completed before any of the contracted work has commenced;
4. a management committee conduct a quarterly review of extended engagement of consultants;
5. accumulation of service costs on a project basis be implemented for management consulting services;
6. coding of service costs be subject to more scrutiny to ensure that expenditures are properly and consistently allocated;

7. consultants' invoices be certified that services have been rendered and prices are in accordance with agreements before submission for payment.

The foregoing comments were included in a memorandum to the Ministry dated September 28, 1979, the date of this Report. Since the Ministry has not had an opportunity to reply, we are unable to present its views on the subject matter.

51. Overpayment of General Legislative Grants to School Boards, Ministry of Education. During the 1977-78 fiscal year, general legislative grants totalling approximately \$1,870,000.000 were paid to school boards. Student enrolment data is considered to be the key ingredient in the determination of these grants. As part of the Ministry's annual review process, a special enrolment review was carried out by the regional offices during the 1977-78 school year. Its stated purpose was to ensure that the enrolment reported for grant purposes by the schools selected for review was correct. The Ministry stated in Provincial Review Report Number 1 of May 1978 that errors were noted in the enrolment figures of 29 per cent of the schools reviewed. The net result of the findings was that enrolments were reduced by the equivalent of 2,111 full time students, producing an overall reduction in grants to school boards of approximately \$1,692,000. We noted that the review covered 8.4 per cent of the total number of schools in the province under the jurisdiction of enlarged boards, but that no attempt was made to project or estimate the overall net overpayment included in the general legislative grant expenditure. The enrolment review was continued into the 1978 calendar year but the results had not been finalized at the time of our audit.

On August 16, 1979 the Ministry advised us that:

"The purpose of the review was to identify and correct error. As you observe, it achieved an overall reduction in grants to school boards of approximately \$1,692,000.

"It was not considered that the sample would identify a 'representative average of error' because different tests were applied to separate school boards, secondary school boards and elementary school boards. However, with the results obtained, further testing will take place to develop a full correcting process."

52. Recommendations Relating to Centre Funded by Ministry Grants, Ministry of Education. During the year, we carried out an inspection audit of the accounting records of a Centre which receives the majority of its operating funds by way of grants from the Ministry of Education. The Centre commenced with the objectives of providing for the exchange and diffusion of pedagogical (teaching) materials among school boards.

Since its inception in January 1974 with a Federal Government Local Initiatives Program grant of \$17,880 and a few staff members, the Centre has substantially expanded its operations. For the 1978-79 fiscal year it was to receive provincial grants totalling \$521,000, including a French Language Learning Material Fund Grant of \$21,000, and as at December 1978 had a full-time staff of six-

teen and a part-time staff of seven. The Centre also receives funds from the sale of educational material to teachers and school boards. We estimated that total funds available to the Centre for the 1978-79 year would therefore exceed \$650,000.

We ascertained that the Ministry had not initially imposed any specific written guidelines on the Centre as to the manner in which the grant moneys were to be expended, nor were there any specific terms of reference with respect to the scope of operations of the Centre. Also, there was no agreement to allow Ministry auditors to conduct an audit of the Centre. The Centre gradually developed its own operating procedures and defined its own scope of operations, with the Ministry being only minimally involved until the 1978-79 fiscal year. The Centre's scope was expanded to include the evaluation and editing of materials as well as the production thereof.

In a letter dated August 1, 1978, the Minister of Education informed the Centre that the grant for the 1978-79 fiscal year would be \$500,000 and that in return the Centre was expected to fulfill several obligations, including the following:

1. The Centre was to submit to the Ministry quarterly financial reports of revenue and expenditure and annual audited financial statements.
2. The Centre was to keep separate in its records the funds it receives under the French Language Learning Material Fund and under the main grant.
3. The selling prices of the Centre's products were to be reasonable and a reflection of the non-profit character of the Centre.
4. All projects funded under this plan and referred to the Centre were to be accompanied by critical reviews.
5. The Centre was to obtain and register copyrights and trademarks for all learning materials produced by the Centre. The instructions regarding the use of such learning materials were to remain the property of the Centre.

The Centre's charter requires that on dissolution, the net assets shall be distributed or disposed of to charitable organizations which carry on their work solely in Ontario.

The majority of items in the Centre's catalogue, issued on September 30, 1978, originated with school boards in Ontario. We ascertained that the selling prices were the aggregate costs of basic materials (e.g. paper, slides, cassettes), binding, packaging and postage. Overhead costs were not included. The majority of the items were priced at \$3 or less.

Reproduction of materials for sale is by photocopy machine. During the period April 1 to December 31, 1978 the Centre paid approximately \$47,000 for the rental of five photocopy machines, four of which were used for this purpose. According to the Centre's records, approximately 4,441,000 reproductions were made for sale and 31,000 for general office use during this period.

We recommend that consideration be given to the following matters:

1. The present pricing policy of the Centre on the sale of materials results in

recovery of only the direct costs. We were of the opinion that overhead costs should also be recovered from the sale of materials.

2. The provision in the Centre's charter regarding the distribution of net assets on dissolution ignores the fact that the assets were acquired with funds provided by the Ministry. A fairer provision would be to transfer the assets to the Province.
3. The Centre should be encouraged to compare the cost of reproduction of materials by photocopy machine with other methods. A more economical method may be found.
4. The present arrangements with the Centre do not provide for audits of the Centre's records by the Ministry Internal Audit Branch. We recommended that these arrangements be changed to permit such audits.

The Deputy Minister wrote to us on August 16, 1979 and advised that:

"We observe . . . that reference is made to the requirement, in the letter of the Minister of Education, that the Centre is to submit to the Ministry quarterly financial reports on revenue and expenditure and annual audited financial statements. It is to be noted that when the grant to the Centre was first expanded, a meeting took place with all the Directors at which the Centre was requested to submit these financial statements and they were, in fact, being received. The Minister's letter of August 1, 1978 was in fact a confirmation and continuation of the request.

"We are pleased to accept all of your recommendations . . . in principle. With regard to recommendations (1), (2) and (3), I will ask our Liaison Committee to meet with the Centre's officers and to study how these recommendations are to be implemented.

"We will further institute negotiations to arrange for the audit of the Centre's operations by the Ministry Internal Audit Branch."

53. Review of Grant Payments for Transportation to Lanark County Board of Education, Ministry of Education. On February 28, 1979 the Minister of Education advised us that:

"In the course of a review by personnel of our Eastern Ontario Regional Office of the Board's transportation routes, contracts and submissions for grant approval, it has become evident that certain bus routes were significantly shorter than had originally been recognized by the Board as a basis for its payments to the contractor and its claim to the Ministry for grant."

Since there was a great degree of ambiguity as to the actual sums involved, the Minister requested that a further audit be conducted by our Office, in accordance with section 17 of The Audit Act, 1977.

Our review of the circumstances affecting grant payments for transportation to the Lanark County Board of Education included an examination of the Board's

records and interviews with Board officials and other persons involved in this controversial matter.

Our review indicated that, because of certain discrepancies and inefficiencies, which the Board rectified in the latter part of 1978, its transportation costs for several years had been greater than would otherwise have been the case. As a result, the transportation components of grants from the Ministry to the Board were also greater than they would have been had the discrepancies and inefficiencies not existed. However, the circumstances and complexities of the issue were such that, with one exception, we did not feel it was practical to attempt the determination of excess amounts with any degree of exactness.

Accordingly, our memorandum, which was sent to the Minister on May 14, 1979, covered the following matters:

- a) the circumstances and practices which were causal to these overpayments,
- b) the group of routes involved in the controversy, together with the corrective actions implemented by the Board, and
- c) the presentation of certain recommendations regarding the procedures affecting transportation grants.

With regard to one particular transportation route which had been contracted to a firm for a number of years, and involved the transportation of secondary school students, we were able to determine with some degree of certainty that part of this route was not driven by the transportation firm. We therefore recommended that Ministry grants to the Lanark County Board of Education be recalculated to take into account the deemed overpayments totalling \$10,340 for mileage on this route which was not driven from September 1974 to June 1978 inclusive.

As a result of our review, the following additional recommendations were made with respect to overall Ministry procedures dealing with grants for transportation costs:

- (1) Development and publication by the Ministry of guidelines for all school boards in relation to the following items:
 - (a) The Boards themselves, in consultation with the operators and other interested parties, should establish the routes to be followed. Route descriptions and route maps should be prepared by the Boards each year and presented to the operators. The route maps should indicate the locations at which pupils are to be picked up and dropped off. The locations on the route maps should be keyed to a list of the pupils as supplied by school principals.
 - (b) Routes should be planned so as to provide an efficient transportation system with due regard for economy. Wherever practical, elementary and secondary school routes should be integrated to avoid duplication. Pupils should not be bussed for greater distances than deemed necessary in the circumstances. The planning should be a continual process.
 - (c) Boards should ensure that the numbers of elementary and second-

ary school students, as well as those attending schools of other jurisdictions, are reported accurately according to bus routes so that transportation grants may be calculated correctly.

- (d) Boards should monitor the operation of their bus routes on a test basis by following in a vehicle or by riding the buses, to ensure that the routes are being operated as planned and as described in the contracts. The surveillance activity should be documented and retained on file.

(2) In its examination of Board records, Ministry of Education Regional staff should look for:

- i) evidence of Board initiative in establishing routes,
- ii) evidence of the planning and review process, and
- iii) evidence of monitoring activity.

On August 8, 1979, the Minister of Education wrote to us as follows:

"The report has been studied within the Ministry of Education and decisions about the recommendations have been made. The specific action is noted in my statement to the Legislature, to the Standing Public Accounts Committee and to the public press. A copy is attached for your information.

"The specific procedural recommendations of your report will be part of the review process of our transportation guidelines to school boards. I believe that this is in consonance with the spirit of your report and the recommendations contained in it."

The Minister's statement, forming part of the preceding reply, was as follows:

"I am pleased to announce that I have tabled to-day a course of action to be taken by the Ministry based on the Provincial Auditor's report on Grant Payments for Transportation to the Lanark County Board of Education. That report was tabled on May 24, 1979.

"The recommendations in the report have been studied by the Ministry and I have taken the following action:

- (1) *The Ministry will take steps to recover the sum of \$10,340 in overpayment to the Lanark Board of Education re bus route No. 23-130 identified in the Provincial Auditor's report.*
- (2) *A review of the Ministry guidelines to school boards on school bus transportation is being undertaken by the Internal Audit Branch and the Grants Policy Branch with respect to ensuring clear and complete record keeping, clarifying interpretations and maintaining a clear audit path where private carriers are under contract with school boards.*
- (3) *The succeeding Transportation Audit Reviews of the Ministry will be monitored to ensure implementation of revised and clarified administrative practices resulting from the review noted in (2) above."*

54. Detailed Review of Waste Recovery Program, Ministry of the Environment.

The Ministry's comprehensive waste recovery program, originally announced in October 1974, has the following goals:

1. To reduce the quantity of waste produced.
2. To recover to the greatest degree practicable the resource values in waste.
3. To reduce to a minimum the use of land for waste disposal.
4. To achieve these goals at least cost to the public.

The various approaches available which had to be pursued in parallel to attain these goals were:

1. A reduction in the quantity of material produced which is likely to result in waste. Examples of possible means include the elimination of unnecessary packaging and greater use of refillable containers.
2. Separation of some elements of waste at the source; at the industrial, commercial, institutional and household level.
3. Planned, coordinated waste management systems, from collection to final reuse or disposal.
4. Waste separation and material processing plants.
5. Encouragement for the reuse of recovered material, and the development of new uses for this material.

The implementation plan for the comprehensive waste recovery program covered three, five-year stages. The first stage of the plan, covering the years 1975 to 1980, was as follows:

- Replacement of landfill disposal sites by transfer stations. At these stations waste would be compacted and transferred into long-haul vehicles for transport to comparatively few central disposal facilities.
- Construction of an experimental plant for resource recovery. A complete resource recovery plant can be considered in two sections, generally called 'front-end' and 'back-end' processes.

The technology for 'front-end' processing is relatively well developed. This includes shredding the waste to a uniform size, magnetic separation of tin cans and other ferrous metals, and air classification processes to separate the remaining waste into two fractions — a light fraction composed principally of paper fibre and plastic film, and a heavy fraction composed principally of non-ferrous metals, glass, organic material, plastics and other materials. The 'back-end' processes include a very large number of possible different options, directed at the separation of all these materials in different forms, depending upon the market to which they will be directed. The technology for these 'back-end' processes is relatively undeveloped and unproven.

The experimental plant for resource recovery would be used to find

and prove the technology for complete resource recovery. It would also provide a regular supply of separated material, of controlled quality, for product utilization and market development efforts.

- Construction of six 'front-end' plants as soon as possible at an estimated cost of \$17.0 million.
- Support certain large-scale technology demonstration projects such as 'Watts from Waste'. The purpose of the 'Watts from Waste' project is to demonstrate the use of refuse derived fuel as a partial replacement for coal at Ontario Hydro's Lakeview Generating Station.

Expenditure incurred from the inception of this activity in the fiscal year 1974-75 to March 31, 1979 totalled \$29.8 million.

Current Status — Stage 1 of Implementation Plan

As previously indicated, several approaches had to be pursued in parallel if goals were to be attained. To March 31, 1979, however, the primary emphasis based on dollars expended, has been on processing plants for resource recovery, even though it was recognized that a comprehensive approach to solid waste management should integrate other approaches, such as reduction in the quantity of material which contributes to waste and the separation of some items of waste at the source of the waste production.

With respect to specific Stage 1 objectives:

- Generally, disposal sites have not yet been replaced by transfer stations. Commencing with the 1976-77 year, as is covered elsewhere in this section, funds are now being spent on the design and construction of new waste disposal sites, which is at variance with Stage 1 of the implementation plan.
- The Experimental Plant for Resource Recovery, which was regarded as the single most important element for the successful development of the program, commenced full resource recovery operations in April 1978, more than one year later than anticipated. As also stated elsewhere in this section, the plant was operating at less than capacity at the time of our audit.
- The 'front-end' plants announced for construction have not been built.
- Although Ministry expenditure on the 'Watts from Waste' project totalled \$1.2 million to March 31, 1979, this project was in abeyance at that date, pending the outcome of a study of alternatives.
- A joint demonstration project with a cement company to investigate the use of refuse derived fuel (RDF) as a fuel supplement for cement production was scheduled to start in the fall of 1977, when RDF was expected to be available in quantity from the experimental plant, and completed by the end of 1978. At the completion of our field work in March 1979, we noted that the project was expected to commence in April 1979, with completion by the end of the year.

As a result of the preceding comments, we recommended that the Ministry re-examine whether the program goals and implementation plan were realistic, and from a cost/benefit viewpoint, the desirability of curtailing or carrying on with certain aspects of the program.

A more detailed outline of our findings and proposals relative to expenditure charged to the Waste Utilization activity is contained in the ensuing paragraphs.

Experimental Plant for Resource Recovery

The main purposes for constructing the experimental plant were:

- To develop and evaluate processes and equipment for resource recovery;
- To develop criteria for design and for estimating capital and operating costs;
- To provide a regular supply of recovered resources for product utilization and market development.

On the basis of a technical feasibility study, completed in 1974 by a consulting engineering firm, the decision was made to proceed with the construction of a unique experimental plant for resource recovery. An agreement dated December 6, 1974 was signed with the same engineering firm to provide the design and construction supervision. The total cost of construction as estimated in 1973 was \$6.8 million, including a contingency allowance of \$.5 million. No project completion date was indicated in the agreement, but the Ministry expected the plant to be fully operational by late 1976. On February 10, 1975, a status report on the experimental plant was submitted to Management Board of Cabinet. At that time, a proposed agreement with Metropolitan Toronto contained terms whereby Metropolitan Toronto would lease the land to the Ministry on a thirty year basis at \$1 per year, and would also pay for $\frac{1}{3}$ of the capital and operating costs of the plant.

In 1976, since the project was designed to be of benefit Province-wide, the Province assumed entire responsibility for capital and operating costs of the plant and entered into a formal agreement with Metropolitan Toronto. The Municipality was required to pay to the Province a fee per ton of waste delivered and to lease the land under the previous understanding.

CONSTRUCTION

The Experimental Plant for Resource Recovery consists of three facilities—transfer station, paper and cardboard recovery, and other resource recovery, for example, ferrous metals. Operational dates were March 1977, August 1977 and April 1978 respectively. The plant in effect commenced full operations more than one year later than anticipated. The delay was attributed by the Ministry to the design period and construction delays. As at October 31, 1978 the capital costs of the plant totalled \$14.6 million, more than double the original estimate of \$6.8 million. Additionally, at the time of our examination, the Ministry was involved in settling substantial contractors' claims related thereto. The increase in cost was attributed by the Ministry to substantially low original estimates, realized after engineering design work had been carried out and competitive bids for equipment

were received. The problem was compounded by the escalation in construction and equipment costs since 1973.

An Agreement Control Form (ACF) is used by the Ministry to approve expenditures which exceed the amount established in an agreement. In order to maintain cost control, the ACF is approved on the basis of adequate justification prior to the expenditure being incurred. We noted that costs totalling \$684,986 were incurred in connection with 3 contractors before approval was given through an ACF.

Formal tendering procedures were not followed for the purchase of additional equipment and modifications from 3 suppliers, totalling \$182,791. Of this amount, \$118,300 pertained to one supplier whose original tender was \$64,897.

OPERATIONS

The plant is operated under the supervision of a Management Committee consisting of two representatives from the Ministry's Waste Management Branch and one from Metropolitan Toronto. Plant operation and direct management is the responsibility of a private waste management company under the terms of a five-year contract dated November 26, 1976. The Ministry is required to reimburse the operator, on a monthly basis, for all costs incurred and paid in the operation and maintenance of the plant, including a management fee. Reimbursable costs are not to exceed \$2 million in any one fiscal year without prior Ministry approval.

The transfer station facility, which commenced operation in March 1977, has the capacity to compress 600 tons of garbage per shift (i.e. 7:00 a.m. to 4:30 p.m.) for hauling in large trucks to landfill sites. This facility is not resource recovery but is necessary, in part, as a bypass operation to process any unsuitable garbage, or garbage exceeding the resource recovery processing capacity of 300 tons per shift.

The resource recovery facility commenced operations in April 1978 and, at the time of our audit, was attaining $\frac{1}{3}$ of its capacity. About 30 per cent of the waste used in the resource recovery process is sent to landfill sites.

Plant operating expenditures from April 1, 1977 to January 31, 1979 totalled \$3.2 million. Revenues consisted of dumping fees, \$1.9 million, billed to Metropolitan Toronto, and resource recovery sales billings of \$76,548, comprised of corrugated cardboard \$43,954, ferrous metals \$10,362, white ledger and newsprint \$22,232.

'Front-End' Plants

Six 'front-end' plants were planned for construction in Sudbury, London, Halton, Peel, Metropolitan Toronto and Kingston. The Province would provide 100 per cent of the capital cost exclusive of land and recover 50 per cent over 40 years. Revenues recovered from the sale of materials would be used to offset operating costs incurred by the municipalities.

Feasibility studies regarding such plants commenced in January 1975 with the last report being submitted in November 1977. During the period June 1975 to

June 1976 there were eight such studies in progress. On May 3, 1976 an application was made to Management Board of Cabinet to delay the construction of 'front-end' plants. It is interesting to note that an agreement for one of the above studies was entered into on June 17, 1976, after the application was made to delay the construction of 'front-end' plants.

Payments made to external consultants for the studies totalled \$682,000, an increase of \$125,000 over original estimates. Reasons for the increase were generally poor estimates, cost overruns, and changes to the terms of reference. Essentially, the consultants recommended the construction of 'front-end' plants. In a number of cases, when markets were developed, the production of a refuse derived fuel was also recommended. Estimated capital costs per plant ranged from \$4 to \$13 million. To March 31, 1979, no 'front-end' plants had been built. Without the benefit of operating experience from the Experimental Plant for Resource Recovery, we were advised that the municipalities were reluctant to adopt the concept of 'front-end' plants. In addition, due to escalating operating costs, the estimated unit cost of operating a 'front-end' plant with the majority of waste going to landfill proved to be much higher than conventional disposal techniques.

Demonstration Projects

'WATTS FROM WASTE'

The purpose of the 'Watts from Waste' project is to demonstrate the use of refuse derived fuel as a partial replacement for coal at Ontario Hydro's Lakeview Generating Station.

As a result of a \$24,500 'Watts from Waste' conceptual study in 1973, which did not include estimates of cost increases resulting from inflation and delays in construction, the Province entered into an agreement with Metropolitan Toronto and Ontario Hydro in March 1975. The terms of the agreement required that:

1. Metropolitan Toronto construct a refuse processing plant at a cost estimated in 1973 to be \$11.5 million.
2. The Province pay 15/115 of Metropolitan Toronto's construction costs (i.e. \$1.5 million).
3. The Province pay the cost of alterations to the Lakeview Generating Station estimated in 1973 to be \$3.5 million.
4. July 1, 1978 be the target date for the commencement of the demonstration period.

Subsequent amendments in November 1977 to these terms delayed the commencement date for the demonstration period to July 1, 1980 and revised the estimated costs to \$23.2 million for the refuse processing plant and \$10.7 million for alterations to the generating station.

As a result of equipment tenders received in September 1978, the estimated cost of the refuse plant was further increased to \$34.3 million. Additionally, the estimated costs of alterations to the generating station were revised to \$11.8 million.

Hence, total estimated project costs had increased by 207 per cent from \$15 million in 1973 to \$46.1 million by September 1978. Over the same period, the Provincial commitment had increased from \$5 million to \$16.3 million.

These escalating capital costs have therefore placed the 'Watts from Waste' project in abeyance pending the outcome of a shared cost study of alternatives. At March 31, 1979 payments made by the Province to Ontario Hydro and Metropolitan Toronto totalled \$1.2 million.

CEMENT COMPANY

On May 3, 1976 an application was made to Management Board of Cabinet for approval of a joint demonstration project with a cement company to investigate the use of refuse derived fuel (RDF) as a fuel supplement for cement production. It was felt that a viable long-term market for RDF was essential if refuse processing for resource recovery was to be economically justified. RDF for the demonstration was to be supplied by the Experimental Plant for Resource Recovery.

A pre-engineering study was carried out under agreement with the cement company in June 1976. The company retained the same engineering consulting firm which was engaged in the construction of the Experimental Plant to carry out the study. The report on the study estimated that the overall project cost would be \$245,000, including \$22,000 in contingencies. On the basis of the report, an agreement was entered into with the cement company on November 18, 1976, whereby the Ministry would pay up to \$200,000 for capital costs. Provision was also made to finance up to an additional \$50,000 in capital costs out of the moneys that the Company would pay for the RDF utilized in the study. The project was scheduled to start in the fall of 1977, when RDF was expected to be available in quantity from the Experimental Plant, and completed by the end of 1978.

In February 1977, the consulting engineer indicated that revised project costs were now \$282,000, based on firm prices for all equipment and construction. Authorization was given to proceed with direct capital expenditures up to \$250,000 and, as before, additional capital expenditures up to \$50,000 to be recovered from the fuel account. At the end of October 1977, the entire amount of \$250,000 had been expended. A further approval for \$42,000 was given in October 1978 to carry out considerable modifications to the project. At the end of 1978 the project was not yet operational. At the completion of our audit, the project was expected to commence in April 1979 with completion by the end of the year.

PEEL RESOURCE RECOVERY PLANT

In June 1978, the Province entered into an agreement with the Municipality of Peel and a private sector company to carry out a technical and economic evaluation of a complete resource recovery plant in Peel. The study is to be conducted by the company at a maximum cost of \$500,000. The Province will pay, through the Municipality of Peel, up to \$300,000 with the balance being assumed by the company. The Province has also made a commitment of a grant of \$10 million to the financing of the project if all parties agree that the project is viable. If the

project is deemed viable, but either the Province or Peel decides not to proceed, the company's cost to a maximum of \$200,000 would be refunded by the responsible party. The completion date of the agreement was March 22, 1979.

As required in the agreement, a payment of \$150,000 was made in July 1978 by the Province to Peel. However, at December 31, 1978, Peel had only paid a total of \$44,396 to the company.

Other Matters

WASTE MANAGEMENT ADVISORY BOARD

The Waste Management Advisory Board was established by Order in Council dated January 29, 1975 in accordance with section 3(i) of The Environmental Protection Act. The Board consists of eleven members, including the Chairman, and receives administrative support from five full-time employees. Expenditure of the Board for the period April 1, 1977 to January 31, 1979 totalled \$565,784.

The purpose of the Board, as described in the Order in Council, is "to advise the Minister of the Environment with respect to matters referred to it by the Minister relating to the management of waste in Ontario including the reduction of the quantity of waste produced and the development of resource recovery". The Board's Statement of Purpose, however, provided to the Minister on September 8, 1975, described its role as "to advise the Ontario Minister of the Environment on matters related to the management of waste in the Province". The Board has therefore established its purpose as not merely responding to referrals from the Minister, as specified in the Order in Council, but has also undertaken studies on its own initiative.

Most of the Board's studies are carried out by outside consultants and, for the period from April 1, 1977 to January 31, 1979, relevant payments totalled approximately \$180,000. A significant part of this expenditure pertained to studies initiated by the Board.

Both the Board and the recently established Waste Management Branch of the Ministry are involved in planning and policy development for solid waste management. Consequently, potential for some duplication of effort exists. Lines of demarcation between the responsibilities of the Board and the Branch are not clear and matters of mutual concern are currently resolved through discussions.

In order to increase managerial control and improve efficiency, we recommended that:

1. the terms of reference of the Waste Management Advisory Board and the Waste Management Branch be reviewed so that their respective responsibilities may be clarified; and
2. an amendment to the Board's Order in Council be processed.

DERELICT MOTOR VEHICLES

The Derelict Motor Vehicles program was established in April 1975 under

the authority of The Environmental Protection Act. The duration of the program was planned for approximately five years and its goals were:

1. to clean up the Province of derelict motor vehicles;
2. to set up a series of collection sites for hulks;
3. to promote resource recovery by transportation of hulks to processing plants; and
4. to establish a self-sustaining program with municipalities for hulk clean up.

The major thrust of this program was in Northern Ontario, where the secondary metals industry is not well established.

Contracts are established between the Ministry and municipalities whereby the Ministry pays for locating, collecting, and delivering hulks to certified salvage sites. Payments, up to a maximum of \$5,000, are also made for the development or improvement of approved derelict motor vehicle sites. From inception in 1975 to March 31, 1978 approximately 23,000 hulks had been collected for a total Ministry cost of \$878,000.

Section 9 of the contract between the Ministry and municipalities requires that the municipality establish a reserve fund for the proceeds from the sale of derelict motor vehicles. The funds are to be used only for further derelict motor vehicle clean-up efforts. Section 12(3) of the contract requires the municipality to provide the Crown with comments regarding the success of the program.

In neither of the above cases were procedures instituted by the Ministry to ensure compliance with the contract requirements. It therefore remained a matter of conjecture as to the extent to which program goals, especially (4), had been attained.

The 1977-78 Estimates provided \$1,000,000 for Derelict Motor Vehicles expenditure. In April 1977, approval was received from Management Board of Cabinet to broaden the Derelict Motor Vehicles program in order to create higher job potential. Accordingly, an amount of \$480,000 was reallocated to waste management improvement projects, such as the upgrading or closing of existing waste disposal sites, design and construction of new waste disposal sites and debris clean-up projects. The 1978-79 Estimates provided for expenditure of \$500,000 on "Derelict Motor Vehicles and Waste Disposal Sites".

Derelict Motor Vehicles expenditure was reported in the 1977-78 Public Accounts as \$849,230. Of this amount, \$461,230 was incurred on waste management improvement projects. As these projects are unrelated to the previously stated goals of the Derelict Motor Vehicles program, we recommended that their expenditure be disclosed separately. Furthermore, we felt that these expenditures directly contradicted one of the original goals of the Ministry's comprehensive waste recovery program, namely, to reduce to a minimum the use of land for waste disposal.

On September 21, 1979, the Deputy Minister wrote us to advise:

"We have had an opportunity to review the program audit on the Re-

source Recovery Program and Waste Utilization activity and the Ministry's response to the recommendations is attached. You will notice that there are very few rejections and for that matter many of the recommendations are already being implemented.

"In this positive vein, where questions have arisen on certain recommendations, a review of the recommendations will be carried out and appropriate action will be taken."

The Ministry's attached response, referred to in the preceding letter, was as follows:

Resource Recovery Program

1. *"Assess Resource Recovery Program goals and the initial implementation plan for relevance and cost benefit.*
 - Considerable revisions have been made to the Program which are reflected in a change in emphasis from strictly front-end plants to full-scale processing plants for energy and material recovery.*
 - The Waste Management Branch has been reorganized.*
 - An Energy from Waste program in co-operation with Energy is a reflection of the more comprehensive approach.*
 - The need to provide waste management systems and planning has not reached the next stage of implementation with resource recovery plants, transfer stations and landfill being developed.*
 - Over-all the Ministry recognizes the need for larger scale processing plants and extensive waste management infra-structure with greater cost implications for municipalities and the Province, requiring a more prudent approach."*
2. *"Maintenance of cost control for the construction of the Experimental Plant and non-standard tendering procedures for equipment purchases.*
 - The uniqueness of the facility led to the Ministry decision to adopt project management approach.*
 - Experimental nature of the waste recovery process required that equipment be purchased in a non-standard manner because of specialized need.*
 - In the future, the experience derived and the comments from the Provincial Auditor will be exercised."*

Waste Management Advisory Board

1. *"Review Terms of Reference of the Board and the Waste Management Branch and Revise the Board's Order in Council if required.*
 - The Board and the Branch are currently reviewing their respective goals, objectives and roles to clarify and integrate their activities.*
 - Once this review is complete the need to change the Board's Order in Council will be determined."*

Derelict Motor Vehicle Program

1. *"Establish procedures to ensure compliance with contractual requirements and separate the reporting on the Waste Disposal Site Improvement Program.*

- Replacement of the Derelict Motor Vehicle program by a municipal by-law approach will terminate Ministry involvement in response to Deregulation and to increase municipal autonomy.*
- The Ministry will now administer a program aimed to waste disposal site improvements consequently, disclosures will be entirely directed to this end."*

55. Improved Reporting and Evaluation Procedures Recommended for Experience Program, Ministry of the Environment. Experience '78, insofar as it related to the Ministry's participation therein, was primarily a program of grants to universities and colleges offering meaningful employment opportunities for environmentally-oriented students. The program provided 410 jobs in the 1978-79 fiscal year, resulting in the expenditure of approximately \$448,000.

Ministry liaison officers were appointed for all projects. Their duties included the monitoring of progress on projects for the purpose of approving funds and issuing written reports. These reports were not used as a control feature. We noted that the second installment of funds for the program was paid prior to the receipt of reports from liaison officers. We recommended that for subsequent programs, the second installment be paid only upon approval of liaison officers.

Ministry guidelines required each institution to submit a final report on the results of the research study and a financial report accounting for all funds advanced. These reports were therefore an integral part of each project. However, procedures were not in force for ensuring that all reports were received. At the time of our audit, we noted that final reports were being received for both Experience '77 and Experience '78 programs.

We therefore recommended that follow-up procedures be implemented to ensure final reports are filed within a reasonable time.

Program results were assessed on the basis of the number of students who were provided summer employment. We felt that, in future, the program could be better assessed on the basis of project performance and results. We therefore recommended that this matter be considered.

The preceding comments were included in our memorandum of August 10, 1979 to the Ministry. Since no reply had been received to September 28, 1979, the date of this Report, we are unable to present the Ministry's views on the subject matter.

56. Inadequate Rate Reviews for Water and Sewage Charges to Municipalities, Ministry of the Environment. The Ministry currently operates, or has under construction, sewage and water treatment plants for municipalities under 274 Provincial agreements. In order to recover the capital and operating costs, the Ministry

charges the municipalities service rates based upon gallage of flow. A majority of these rates are initially reviewed after a two year and three year period, and every five years thereafter. They are established at a level calculated on a twenty year break-even point and are intended to recover estimated operating costs, debt amortization and the accumulated deficit to date. The rate calculations take into account forecasts of population growth and projected deficits in the earlier years of operation and increased revenues in later years.

The actual accumulated deficits as at March 31, 1979 were estimated by the Ministry to approximate \$24 million. A comparison of prior years' actual deficits with planned deficits for some municipalities indicated that planned deficits had been greatly exceeded. This suggests that, in view of substantial inflationary increases in operating costs, the current policy of adjusting rates at five-year intervals may not be adequate. We therefore recommended that consideration be given to more frequent rate reviews, preferably annually, or that an adequate allowance for inflation be made when setting rates initially.

The foregoing comments were included in a memorandum to the Ministry dated August 10, 1979. We have no record of a reply as at September 28, 1979, the date of this Report. We are, therefore, unable to present the Ministry's views on this matter.

57. Observations Re Expenditure of the Royal Commission on the Northern Environment, Ministry of the Environment. During the year, we completed an audit of the expenditure of this Royal Commission. This audit was undertaken at the request of the Deputy Minister acting on behalf of the Commissioner. The following comments were included in a memorandum sent to the Ministry on February 19, 1979. Relevant portions of the Ministry's reply, which was dated April 18, 1979, are included after the comments or recommendations to which they pertain.

Both our memorandum and the Ministry's reply were reviewed at a meeting of the Standing Public Accounts Committee on April 26, 1979.

The Royal Commission on the Northern Environment was established on July 13, 1977 by an Order in Council that named a Commissioner pursuant to the provisions of The Public Inquiries Act, 1971. The Commission was instructed:

- to inquire into the environmental effects of major enterprises north or generally north of the 50th parallel;
- to inquire into methods that should be used in the future to assess, evaluate and make decisions concerning the effects on the environment of such major enterprises;
- to investigate the feasibility and desirability of alternative undertakings north or generally north of the 50th parallel, for the benefit of the environment; and
- to report and make recommendations from time to time and as expeditiously as possible.

The Order in Council defined "environment" to include the natural environment and the social, economic and cultural conditions influencing the lives of the people and their communities.

On August 2, 1978 a second Order in Council appointed a successor Commissioner to continue the inquiries, investigations and other duties as previously set out.

The recorded expenditure of the Commission from inception until October 31, 1978, amounted to \$1,955,767 and may be summarized as follows:

	\$	\$
REMUNERATION: COMMISSIONER		
Per Diem Fees		10,400
REMUNERATION: STAFF AND OTHERS		
Salaries and Benefits	593,183	
Consultant Services	202,038	
Legal Services	167,714	
Temporary Help	51,714	1,014,649
TRANSPORTATION AND COMMUNICATION		
Travel, Accommodation and Food	82,071	
Mailing and Postage	17,458	
Telephone Service	11,990	
Other Accounts	4,552	116,071
PUBLIC INFORMATION AND PARTICIPATION		
Public Funding	371,620	
Communications Project	170,854	
Printing	93,399	
Advertising	37,425	
Recording and Translation	34,088	707,386
OFFICE AND ADMINISTRATION		
Furniture and Equipment	52,730	
Books, Stationery and Supplies	22,572	
Rental of Equipment	19,148	
Lease and Leasehold Improvements	8,821	
Other Accounts	3,990	107,261
		<u>1,955,767</u>

Observations made with respect to certain of the summarized expense categories were as follows:

Per Diem Fees (\$10,400)

Remuneration of the first Commissioner, a Justice of the Supreme Court of Ontario, was not charged to the Commission.

The Order in Council which appointed the succeeding Commissioner provided that he receive remuneration and reimbursement at rates to be approved by Management Board of Cabinet. Accordingly, Management Board approved a "salary rate" of \$200 per day effective August 2, 1978.

Consultant Services (\$202,038)

Consultant services were provided by thirty-three individuals and firms for a variety of assignments in policy, research and editorial fields. The methods or procedures by which consultants had been selected were not formally documented and there was no evidence in the files indicating that competitive procedures had been employed when such would have been appropriate.

In twelve instances involving fees totalling \$47,010, written agreements with the consultants were not on file.

Ministry reply:

"A procedure has been established for the selection of consultant services on a competitive basis. A minimum of three proposals are requested from suppliers in the related discipline and are reviewed by a selection panel which comprises the Executive Director, Program, the senior staff of the related discipline (environmental or economic) and the Director of Finance and Administration, to ensure that the procedures and the actions initiated conform with the Management Board policies. All contractual agreements with consultants are formalized and contained in a letter of agreement which specifies the nature of the assignment, the scope of the work, the agreed contract price and method of payment, mutual responsibilities and other standard legal clauses."

Our comments regarding three assignments follow:

1. On May 1, 1978 an individual was engaged as editorial director for the Issues Report and related publications at the rate of \$4,000. This amount represented the individual's estimated maximum cost for the assignment based on a minimum of 22 working days calculated on 8 hour days. The project was extended to November 30, 1978 through a series of amendments to the initial agreement and a total of \$20,000 had been paid for services performed to September 30. Additionally, the invoices submitted for payment did not list the days or hours worked and therefore compliance with the terms of the agreement had not been documented in this respect.
2. A consultant was engaged through a series of contracts and extensions from June 7 to November 30, 1978 in connection with recommendations and arrangements for a proposed Northern Task Force and the Commission's office in Northwestern Ontario. Initially the Commission accepted the consultant's estimated maximum cost of \$7,525 for the assignment at a rate of \$175 per diem. As a result of a job study conducted by the Ministry of the Environment, the rate was judged excessive and reduced to \$95 per diem on July 7.

Through October 31, the consultant had been paid \$10,960 including \$4,025 at the higher rate, or \$1,840 more than he would have received at the lower rate. We questioned the need for the appointment in the first place, especially in view of the comment made by a Commission official in a letter to the consultant on October 25, 1978, "Things are not moving as quickly as anticipated and we cannot, without a definite work assignment, justify a further extension".

Ministry reply:

"The consultant in question was remunerated at the outset at a per diem rate in keeping with the level of professionalism required for part of that contract. Notwithstanding the coincidence of the job study by the Ministry of the Environment, an evaluation of the level of professionalism required for the next phase of the project dictated a somewhat lower per diem rate.

"The comment . . . 'Things are not moving as quickly . . .' is somewhat out of context. If indeed an explanation is required, the comment was made in the

context that (a) the Thunder Bay office was not yet opened, (b) the new Commissioner's work program had not yet been identified, and (c) the intent of the letter was to deny a perpetuation of employment on a consultant basis. As it happened, the office was opened, the programs were delineated, and the Commission was in the position to offer continued employment on a Group I Unclassified basis at yet a further reduction in salary."

3. Payments totalling \$17,725 were made to a firm for a research project based on a proposal submitted by a university group. The work apparently involved the services of a faculty member and graduate students as well as the use of space at the university. There was no evidence of a formal agreement with either the firm or the university.

Ministry reply:

"Comments related to the use of university space and facilities are noted and procedures established to ensure that in any future agreement formal negotiations for such space and facilities are carried out with the university in question."

Legal Services (\$167,714)

Expenditures for private sector legal counsel are summarized as follows:

	Fees \$	Disbursements \$	Total \$
Research Counsel	80,760	16,963	97,723
Commission Counsel	44,912	4,394	49,306
Associate Counsel	18,460	1,805	20,265
Other legal costs	250	170	420
	<u>144,382</u>	<u>23,332</u>	<u>167,714</u>

The Commission's budget submission to Management Board in October 1977 indicated that counsel rates had been discussed with the Ministry of the Attorney General. However, the Manual of Administration (50.8) in reference to commissions required that billings from private sector legal counsel for amounts in excess of \$1,000 be submitted to the Ministry of the Attorney General for review and approval before payment. The billings on file at the Commission offices did not bear such approvals.

We were advised that the research counsel, although not resident in Toronto, was engaged by the Commission because of his expertise in administrative law. A significant portion of his disbursements was attributable to travel to and from his city of residence — Ottawa. He received an accommodation allowance of \$100 per month and meal expenses while in Toronto until December 1977 when the Commission deemed it appropriate that expenses related to meals in Toronto should not be claimed. As analyzed, his disbursements were for:

	\$
Air travel, Ottawa-Toronto	7,028
Other air travel	1,888
Taxi fares	2,727
Accommodation and meals	4,065
Other expenses	1,255
	<u>16,963</u>

Ministry reply:

"Legal services as stated were discussed with and approved by the Ministry of the Attorney General and the reference to the submissions of billings in excess of \$1,000 to the Attorney General's Office for authorization again is related to the questionable applicability of Manual of Administration policies to the operation of Commissions at that time."

Public Funding (\$371,620)

During the period November 1977 to February 1978 the Commission held a series of preliminary public meetings at fourteen locations in Northern Ontario and in Toronto. Over 400 individuals and groups gave written and oral presentations to the Commissioner, of which 324 were published. Other public information and participation activities sponsored by the Commission are referred to in the paragraphs following.

The Commission was authorized to distribute funds at its discretion for the purpose of ensuring effective participation by the public. Up to October 31, 1978 the Commission had distributed \$371,620 to 18 organizations, with most of the funds going to two native associations (76 per cent) and two municipal groups (17 per cent).

One of the criteria for funding as set forth by the authorizing Order in Council was that the recipients should be willing to make a commitment to account for the funds. As part of our audit, the accounting records of one native association were inspected.

The association received a total of \$167,292, the major portion of which was a payment of \$157,535 in November 1977 to cover the tasks outlined in a budget proposal which had been accepted by the Commission. Correspondence on file indicated that, from the Commission's point of view, this payment was for purposes directly related to the objectives of the preliminary public meetings. Additional amounts of \$5,385 and \$4,372 were approved later, bringing the total funding for the preliminary public meetings to \$167,292. Although the association's records did not include a budget comparison, the principal categories of expenditure may be summarized as follows:

	Funding (Per Budget)	Expenditure Per Accounting Records
	\$	\$
Salaries and benefits	37,200	51,639
Travel expense		
— Administration	9,950	28,224
— Preparation	38,690	15,242
— Presentation	49,612	52,918
	98,252	96,384
Consultant services		
— Fees	11,500	13,297
— Expenses	3,490	5,769
	14,990	19,066
Other administrative accounts	16,850	14,705
	167,292	181,794

The following observations were made in the course of our inspection of the accounts:

1. The Auditor's Report presented by a firm of chartered accountants for the year ended March 31, 1978 referred to serious deficiencies in financial and managerial controls. Partially as a result thereof, the firm was unable to express an opinion as to whether the association's financial statements presented fairly its financial position and results of its operations.
2. Budgetary control in the administration of the funding was lacking. Actual expenditures were not compared with the amounts in the budget submission which had been accepted by the Commission.
3. Formal personnel and attendance records were not maintained for the employees whose salaries and benefits were charged to the funded project. As a result, we were unable to reach an opinion as to the fairness of the total charges for salaries and benefits.
4. The travel expense includes \$21,180 in allowances paid at the rate of \$50 per diem to Chiefs, Elders and other delegates for attendance at community preparation meetings and at the preliminary public hearings. The per diem payments were intended to cover accommodation and meal costs enroute and at the meetings. Any accommodation or meal costs billed directly to or incurred by the association were to be allocated and deducted from the per diem payments. In some cases, we noted that such costs were billed to or incurred by the association. However, the documents on file frequently did not indicate clearly the number of days for which the allowance had been paid or what deductions, if any, had been made. Thus, in our opinion, the association did not properly account for the funds. Further, we felt that reimbursement for actual expenses only should have been made in lieu of per diem allowances, since it was not demonstrated that additional financial assistance was necessary to enable the delegates to represent their interests at the meetings.
5. There was a lack of evidence on file that staff travel had been authorized in advance by the appropriate authority and in some cases that the travel was relevant to the funded project.
6. The amounts listed for consultant services include \$7,092 for fees and expenses paid to a Toronto barrister for legal services. Legal advisory services were also supplied by an association staff member who received \$5,000 in salary payments under a part-time arrangement. The basis for the latter's payments, i.e., days worked or rate of remuneration, was not documented.
7. Payments totalling \$3,966 were for a planning consultant who assisted in the preparation of the funding proposal and who was involved in planning for participation by the association over a three year period. In our opinion, the cost of professional services at the "proposal" stages of funding should not have been a charge to the funding.

The second major native association received \$107,928, of which \$93,775 was to enable the association to effectively participate in the preliminary public meetings. The balance (\$14,153) was channeled through the association to an anti-mercury

group for legal services, scientific advice and other expenditures relevant to participation at the meetings. Expenditure as reported by the association was \$108,216 (\$14,441 more than the funding) and may be summarized as follows:

	\$
Advisory, legal and other consultant fees	53,045
Travel, accommodation and meeting expense	46,595
Administrative expense	8,576
	<u>108,216</u>

The Auditor's Report for the year ended March 31, 1978, as presented by a firm of chartered accountants, stated in part that:

"The system of internal control did not function properly during the year and we were unable to satisfy ourselves by other means as to the reliability and completeness of the accounting records."

In view of the preceding comment, the auditor was unable to express an opinion as to whether or not the financial statements presented fairly the financial position of the association and the results of its operations for that year.

From the records available we determined that the advisory, legal and other consultant services were provided mainly by eight individuals. In lieu of performing an inspection audit, we specifically requested copies of the documents relative to the nature of the services rendered by these individuals, and also for similar services supplied in connection with the funding for the anti-mercury group. Although requested on November 28, 1978 the documents had not been received as of September 28, 1979.

The funding expectations of the native associations seem to have exceeded a level which might be deemed reasonable over the life of the Commission. For example, we noted that at the time of submission of the budget for preparatory work in connection with the objectives of the preliminary public meetings, the preceding association included a budget for research and development leading to future submissions totalling \$1,183,875. The then Commissioner informed the association that additional funding would not be discussed until after the preliminary hearings and report had been completed. No further action has been taken by the Commission in connection with this submission.

The public funding was intended primarily for purposes directly related to the objectives of the preliminary public meetings and was mainly in the form of a single advance payment rather than instalments on the basis of periodic reports. The Commission did not apply detailed guidelines to this "preliminary" funding. However, we noted that the Commission now has prepared a pamphlet describing the funding program and setting out the general and specific criteria and guidelines for financial assistance during the period November 15, 1978 to March 31, 1979.

The funding assistance provided to the two municipal groups totalled \$62,324 and

was mainly in the nature of reimbursement for professional services provided by private sector engineering and planning firms.

Ministry reply:

"... comments are made concerning the lack of detailed guidelines applicable to the 'preliminary' funding. It is suggested that for the purposes directly related to the objectives of the inquiry, the Commission did in fact enunciate to the recipients of the funds the need for the accounting of the expenditures of those funds. Guidelines were specified and the Hartt Inquiry held reasonable expectations relative to accountability since these organizations already had in place their own administrative and accounting resources and, more importantly, were already being funded by other government agencies at both Federal and Provincial levels."

Communications Project (\$170,854)

The communications project involved payments to a native communications society for the provision of extensive radio and newspaper coverage of the Commission's activities. A breakdown of the costs for the five months ended March 31, 1978 was listed in a schedule of the Auditor's Report as presented by a firm of chartered accountants and was summarized as follows:

	Budget as Approved \$	Expenditure \$
Personnel	68,475	53,043
Travel	26,090	24,216
Administration	5,700	6,994
Capital equipment	13,840	24,330
Newspaper supplements	8,050	7,826
Contract services	22,933	22,959
Radio production centres	4,830	5,342
	<u>149,918</u>	<u>144,710</u>

The report indicated that \$5,208 of the 1977-78 allotment was unexpended. As at the date of our audit, this amount had not been accounted for. The society submitted a 1978-79 budget totalling \$551,700 and although the budget was not approved by the Commission, interim payments totalling \$20,936 were made for April and May 1978.

The capital equipment expenditures of \$24,330 included \$18,831 for audio equipment, \$4,713 for office furniture and \$786 for sleeping bags and kits. As these items were purchased from funds provided specifically for Commission purposes, and since the project is now completed, we recommended that the Commission consider seeking the return of the equipment and furniture.

We also noted that the budget, as approved by the Commission, included funds for significant increases in the society's staff and facilities on an almost continuous basis during the five-month period November 1977 to March 1978. However, the preliminary public meetings in Northern Ontario were convened on only twenty-one days at fourteen locations from November 7, 1977 to February 2, 1978. Examples of increments in staff and facilities included:

	<u>Budget</u>	<u>Actual</u>
	\$	\$
Two newspaper reporters, November – March	12,500	10,943
Programmers for radio production centres		
— Sandy Lake, November – March		
— Trout Lake, December – March		
— Fort Hope, January – March		
— James Bay Coast, January – March	10,917	8,848
Reporter/technician, November – March	7,500	6,280
Technician, December – March	6,667	5,000
Fieldworker, December – March	5,000	3,795
Secretary/bookkeeper, November – March	4,166	7,883
Office rental and utilities, November – March	2,500	2,221
Telephone and supplies, November – March	2,750	4,266

We questioned whether such extensive coverage of the proceedings was necessary, especially since:

1. The coverage by the communications society was primarily aimed at that segment of the population represented by the native association which received significant public funding (\$167,292).
2. The Commission published four newsletters during the period November 1977 to March 1978.

In explanation of the need for the society's coverage, we noted that the Commission was desirous of ensuring maximum exposure of its work and keeping the people of the north fully informed of the proceedings at the meetings. It was also the Commission's opinion that the society was the only organization capable of providing this service and that normal communications media would not have been adequate. We were advised that the society's staff attended all meetings, recorded and translated the proceedings, and distributed the information to all communities.

Ministry reply:

"It is self-evident that the need existed for a broad and extensive media coverage of the Hartt Inquiry activities. Since the majority of the audience is located near or North of the 50th and therefore largely Native, it follows that communications should be in the Native languages of the areas covered. It also follows that it was eminently desirable to initiate the communications through a Native organization. The organization selected was already in place and functioning, and with some upgrading of its capabilities (audio equipment) it would provide a knowledgeable interpretive medium through which the Hartt Inquiry could interact with the Native People.

"The statement 'As these items were purchased from funds provided specifically for the Commission purposes' is inaccurate. To quote from the report, 'The commission is also authorized to distribute funds at its discretion for the purpose of ensuring effective participation by the public'. It is submitted that at that point in time when the Commission elected to fund the particular organization and approved its forecasted expenditures, the Commission did indeed exercise its discretionary decision-making prerogatives to support a

program which it deemed to be the most effective means of ensuring public participation.

"In the same paragraph the report recommends 'that the Commission consider seeking the return of the equipment and furniture'. It is suggested that over the long range the provision of funds to this particular organization for the express purpose of upgrading its broadcasting capabilities was, and will be in the future, of paramount importance to the continued dissemination of information related to its activities and the necessary perpetuation of interaction with the Native people. It is also suggested that to seek the return of the equipment at this or any other time would be unwise and would most likely have serious deleterious effect on the Commission's ability to function and exercise its mandate."

Term of the Commission

The report of the Standing Public Accounts Committee dated June 22, 1978 in referring to Royal Commissions recommended:

"that a time frame for reporting be established at the outset and be adhered to or approval of the Lieutenant Governor in Council must be sought, and that if there is any extension required, that the same be reported to the Legislature and the reasons therefor";

and

"that a specific date for the winding-up of the Commission business and a date when the Commission ceases to act as Commissioner be decided upon by the Lieutenant Governor in Council."

Accordingly, we recommended that, if possible, a time frame for the reporting and winding-up of the Commission business be established.

General response from Ministry:

"The Provincial Auditor's Report as presented deals in considerable detail with the activities of the Royal Commission on the Northern Environment. However, its failure to examine the formative months of this body prior to the Order-in-Council of July, 1977 does not cast its activities in their proper perspective. Those formative months of what eventually emerged as the Royal Commission must be included in the report in order that the philosophy and management procedures sanctioned are placed in the correct context and identified as the major thrust in initiating the work program.

"In late 1976, in response to concerns expressed by the Chiefs of Ontario, Municipalities, and other Northern Organizations, the Government of Ontario designated the Reed Paper Proposal as a project to be subject to the Environmental Assessment Act. Mr. Justice Patrick Hartt was appointed to chair the Environmental Assessment Board hearings on this proposal. Subsequently, the Government decided that the mandate given to Justice Hartt on the Reed Proposal would be expanded to include an enquiry into the impact of all major enterprises and developments north of the 50th parallel and to report and make suitable recommendations on the findings of his enquiry. This in-

creased mandate committed Mr. Hartt to a course of action in which a major element was immediacy, with an Organization yet to be assigned a formal vehicle through which it could execute its mandate. From the time of the initial announcement by the Premier until the formal recognition of the Commission under the Inquiries Act, some seven months had elapsed, during which time a number of avenues were explored to successfully place this body into a viable operational mode and at the same time develop an acceptable autonomous profile essential to its success. During the same period of time, it was imperative to initiate the immediate task of satisfying the needs of the Northerners generally and the Native population specifically. Therefore, certain aspects of the work were implemented, i.e. funding of Native organizations for the preparation of hearings and funding of municipal governments also in preparation for hearings.

"In those seven months between announcement and formalization it was necessary for the Hartt Inquiry to function in a highly compressed time frame and in order to mount its program as quickly as possible, administrative procedures were direct and highly responsive.

"The Auditor's Report comments on the number of departures from accepted line Ministry management and administrative procedures. It should be noted that, when this inquiry began its work, the existing Management Board policies relative to the operations of Royal Commissions had not yet been issued. The Manual of Administration, as indeed were the administrators of this authority, was unclear as to what degree the policies it contained applied to the Boards and Commissions then in existence."

58. Recommendations for Improvements in Branch Efficiency, Ministry of the Environment. The Project Co-ordination Branch of the Ministry provides technical and supervisory services required in the planning, construction and operation of water and sewage treatment plants to serve municipalities. Expenditures for plant development and construction in the 1978-79 fiscal year totalled approximately \$180 million.

We noted the following deficiencies in the branch's operations during the course of our audit:

1. Project Inspections

The function of the civil engineering group within the Special Activities unit of the Branch is to perform inspections of the quality of workmanship and materials, and safety, on behalf of the Branch's project engineer. Approximately one and one half employees are engaged in field inspections at an annual salary cost of approximately \$27,000. These duties help to ensure that provisions of the construction contracts are faithfully adhered to. The function of this group encompassed, in part, projects on which approximately \$150 million was spent in the 1978-79 fiscal year.

Inspections are classified generally as:

- (a) routine inspections at regular intervals while the work is in progress;

- (b) substantial completion inspections when the project is finished;
- (c) final completion inspections prior to the expiration of the one year maintenance period.

An internal memorandum, dated January 24, 1979, relating to inspections performed during the 1978 calendar year, noted that, due to lack of staff, most of the routine inspections were done only when convenient and not when needed or requested. As a result, deficiencies were not detected at an early stage. The memorandum mentioned deficiencies such as the following:

- usage of defective or unapproved material;
- poor workmanship;
- contradictory, inconsistent and incomplete drawings, tendered documents and guidelines;
- inconsistencies in design for similar works;
- lack of proper supervision and expertise on the part of consulting engineers' personnel;
- Ministry policy or guidelines not properly enforced; and
- consulting engineers' work diaries incomplete or not up to standard.

A majority of final completion inspections were not done but were left to the consulting engineers. As a result, deficiencies previously noted may not have been corrected and new deficiencies may have occurred after substantial completion.

In view of the potential for achieving greater economies and efficiency through timely inspections and rectification of deficiencies, we recommended that a cost/benefit analysis of the inspection function be performed with a view to maximizing the benefits to the Ministry.

The memorandum also indicated an absence of a Ministry listing of approved materials and suppliers and an absence of clear safety regulations or guidelines. We recommended that these and other matters, such as the procedures for selecting consulting engineers, be considered for inclusion in a manual of procedures for the Project Co-ordination Branch.

2. Inspection Reports

Project records include field inspection reports completed periodically by the Branch's project engineers. These reports note observations on the progress of the works. Our review of project files revealed that several did not have an inspection report on file. For proper control, we recommended that written reports be filed on completion of site inspections.

3. Audits of Subsidized Costs

The Ministry provides assistance to municipalities through direct grants for construction of water and sewage treatment plants. The grants are up to 75 per cent of the cost of works, except in the case of restructured and large municipalities, which receive grants for 15 per cent of the cost of works. A total of approximately \$27 million was spent on this program in the 1978-79 fiscal year. The

Ministry reserves the right to examine municipal records as to eligibility of subsidized costs.

A program of audits by the Internal Audit Branch of the Ministry has not yet been implemented. We recommended that such audits be undertaken. To ensure that the Province receives full value for its money, we suggested that the examinations include engineering evaluations and inspections both before commencement and after completion of construction.

The preceding comments were included in our memorandum of August 10, 1979 to the Ministry. As at the date of this Report, September 28, 1979, we have no record of a reply. Hence, we are unable to present the Ministry's views on the matters raised.

59. Revenue from Licences, Ministry of the Environment. Annual licences, expiring on February 15 of each year, are issued by the Ministry under The Pesticides Act, 1973 to exterminators, operators and vendors. Revenue from the licences for the 1978-79 fiscal year amounted to \$143,000.

The fees for the licences, which range from \$10 to \$100, have not been revised since 1973. In the case of the operator's and exterminator's licences, the examination fee for which is \$5, certain costs are incurred, including the conducting of examinations in various centres of the Province and supplying each applicant with books and materials. We recommended that consideration be given to increasing both licence and examination fees to offset increases in costs due to inflation.

We noted that an applicant's examination fee is forfeited if the applicant fails to attend a scheduled examination three times within a six month period. To reduce administrative costs, we recommended that consideration be given to forfeiting the fee after the first time. In this respect, an appropriate amendment to regulation 618/74 under The Pesticides Act, 1973 would be necessary.

We also noted that there is recurring clerical work in connection with the renewal of licences which would be reduced if licences were issued for a three year period. The term of the licences is at present established by the Act. Should the Act be amended in the future, we recommended that the term of the licences be considered for inclusion in such an amendment.

The preceding comments were included in our memorandum to the Ministry dated August 10, 1979. Since we have no record of a reply as at September 28, 1979, the date of this Report, we are not able to present the Ministry's views on the matters raised.

60. Land Acquisitions, The Parkway Belt West, Ministry of Government Services. The Parkway Belt Planning Area was established by Regulation under The Parkway Belt Planning and Development Act, 1973. The Parkway Belt West Plan was approved by Order in Council under The Ontario Planning and Development Act, 1973. Land for the Parkway Belt West was acquired through the facilities of the Ministry of Government Services.

Expenditures for Parkway Belt land acquisitions comprised the major part of the total expenditures of \$29,696,313 charged to Acquisition/Construction of physical assets in the Real Property Acquisition activity of the Provision of Accommodation Program in the 1978-79 fiscal year.

Incomplete Plans and Records

Regulation 472/73, filed on August 7, 1973, under The Parkway Belt Planning and Development Act, 1973 required that The Parkway Belt Plan be prepared within one year. We noted that the Parkway Belt West Plan, covering the area between the municipalities of Dundas and Markham, was approved and first published in July 1978. It appeared that no plan had been issued at the date of our audit for the remaining area within the Parkway Belt.

A Ministry Parkway Belt West status report as at March 31, 1979 indicated that lands purchased, expropriated or with offers accepted to that date totalled 12,285 acres at a cost of \$190,121,463. We could not find any cumulative cost records in the Ministry to verify the above figure, and an analysis of cost by project and type of expenditure on land acquisition is not part of the financial reporting system. This status report indicated that some 5,246 acres were deemed to be surplus as at March 31, 1979 and the Ministry has recommended disposal over the years 1979 to 1981 with estimated revenue from these sales in the amount of \$61,510,425. No formal financial data could be found showing the costs of lands considered surplus. Lands were stated to be surplus in the Parkway Belt West due to the following circumstances:

1. purchase of a complete holding instead of a required portion as the remaining part becomes landlocked;
2. the policy of allowing a vendor the option of selling all his property although only part is required; and
3. changes in design and boundaries during the acquisition period.

We understood that Ministries and Agencies with land holdings for future development within the Parkway Belt West are to transfer such lands to the Ministry of Government Services. We attempted to examine records of this land in the Survey and Documentation Area of the Realty Services Branch, but found only survey maps and sketches. We felt that land records should include full descriptions, values and dates acquired.

Acquisition for Ontario Hydro

Lands have been purchased in the Parkway Belt West with funds provided by Ontario Hydro. Some of these lands are surplus to the requirements of Ontario Hydro and the costs of these are to be reimbursed to Ontario Hydro by the Ministry of Government Services. The method of reimbursing Ontario Hydro was outlined in a memorandum dated August 10, 1978 from the Deputy Minister to the Director, Realty Services. Under this method the Ministry will reimburse Ontario Hydro for the cost, with interest, of all land surplus to its requirements, including complementary use land and land outside the Parkway Belt West limits. Revenue from sales of these lands by the Ministry is to be credited to the Consolidated

Revenue Fund. We understood from the Director, Realty Services Branch that the approximate total value of surplus land is between \$40,000,000 and \$51,000,000. The financial information relating to land acquired for Ontario Hydro is included in various files kept for each purchase. We understood that the exact liability to Ontario Hydro has yet to be determined. It was our recommendation that separate financial records be maintained and updated during the acquisition process.

Acquisition of Railway Property

Land within the Parkway Belt West Plan area amounting to approximately 140 acres was owned by a railway and was intended for use as an intermodal (rail/road) freight terminal. Following some local opposition to the location of this terminal a decision was made to relocate it a short distance away and outside the Parkway Belt West. An agreement was entered into on December 14, 1977 by the Province, as represented by the Minister of Government Services and the Minister of Transportation and Communications, with the railway, whereby the Ministry of Government Services would acquire the property. The cost to the Ministry would be based on the cost to the railway of land plus certain preparation and development costs at the new site. The new site of approximately 190 acres has, in terms of the agreement, a maximum average land cost of \$27,000 per acre (except as otherwise awarded by arbitration) but there is no stipulated maximum for other costs. The gross cost to the Ministry of Government Services of relocating the terminal was estimated at \$11,630,000.

The railway issued progress billings as it acquired land and incurred preparation and development costs. It was arranged that billings from the railway would be audited by the Internal Audit Branch of the Ministry of Transportation and Communications before submission to the Ministry of Government Services. However, not all of these invoices were audited before payment and a post audit was subsequently performed. A report, dated March 8, 1979, from the Director, Internal Audit Branch stated that overpayments in the amount of \$1,622,476 were disclosed in a review of 43 invoices totalling \$2,526,685. The Ministry of Transportation and Communications has therefore not submitted invoices for payment received after the overpayments were reported, pending a resolution of matters outstanding in this and previous audit reports. No formal records of the accumulated costs of this project were available in the Ministry of Government Services, but from Ministry vendor listings it appeared that approximately \$11,200,000 has been spent to March 31, 1979. The area of land acquired to that date, according to documents we examined, amounted to 263 acres, and we understood that further acquisitions were to be made.

Other Noteworthy Observations

1. Three instances were observed where the costs of legal and appraisal services requested by a vendor, who was dissatisfied with the price offered for his property, were paid by the Ministry. Ministry offers are based on two value appraisals, one performed by qualified Ministry staff and the other by an independent qualified appraiser. To pay for a further appraisal arranged by the vendor so that the property seller may receive a higher price for the lands seems contrary to good business practice. How-

ever, Realty Services Branch of the Ministry took the view that payment of such costs is an inducement to settlement and that these expenses would almost always be awarded to the claimant were he to proceed to the Land Compensation Board.

2. A piece of land of approximately one tenth of an acre was required for highway widening. When the owner of the property was approached in this regard he expressed the wish to sell his entire holding of 76 acres at this location due to age and health reasons. In addition, he asked for the right to lease the property for five years with an option to renew. A value of \$20,000 per acre was placed on the property, which would give an approximate value of \$2,000 on the initial required portion. The whole property was subsequently purchased at \$1,533,000. Approximately 12 acres of this land has been designated for a future highway interchange and the remaining 64 acres for public use, according to the Parkway Belt West status report of March 31, 1979. However, the lease-back to the former owner does not permit public use. This case illustrated the problems and substantial costs resulting from total buy-outs.
3. A farm was sold to a development company shortly before the Parkway Belt West was announced. The purchaser subsequently defaulted on the mortgage held on the property and the mortgagee, a bank, foreclosed. The previous owner eventually regained title to the property under another mortgage from the same bank. The portion of this property, in the amount of 9.7 acres, lying within the Parkway Belt West was designated for acquisition by the Ministry. However, we understood that the owner requested the Ministry to purchase his total 100 acre property and this was subsequently done. This acquisition cost approximately \$419,000.
4. In March 1976 a property three acres in size was offered for sale to the Ministry by owners who indicated that they were suffering distress because of the Parkway Belt West. Two-thirds of the area of this property lies in the Parkway Belt West and one-third lies outside, and it is on this latter portion where the owners' house was situated. A value of \$185,000 was placed on the property by the Ministry and this sum was paid on the sale of the property, which was subject to the following conditions:
 - (a) the vendors had the right to further compensation under section 30a of The Expropriations Act,
 - (b) the vendors had the right to lease the property for a period of two years at a rental of \$3,600 per year, with the option to renew, and
 - (c) the Ministry would pay reasonable costs in connection with proceedings under The Expropriations Act, reasonable legal fees and taxes on the property.

The matter subsequently went to arbitration with the Land Compensation Board and the amount awarded totalled \$456,566, including interest and owners' costs for the property. The Ministry prepared an appeal against the decision but withdrew it, apparently because of the ill health of one of the owners and the loss of sixty-six exhibits, most of which could not be

readily re-created, within the offices of the Land Compensation Board. According to the Parkway Belt West status report as at March 31, 1979, the entire three acres required are shown as surplus to the Parkway Belt requirements. We noted that the Land Compensation Board award included \$10,800 for inconvenience, although the vendors have not apparently suffered any inconvenience and continue to live on the property under a lease which expires in 1980.

Recommendations

The following recommendations were made regarding land acquisition procedures, pertaining not only to the Parkway Belt West, but to land acquisitions in general:

1. The Ministry's financial records should provide detailed costs for each real property acquisition and accumulated expenditures for each land purchase. We believed that the work order system used for capital construction could be adapted to provide this information. Costs of property acquisition should also be identifiable by type, such as Parkway Belt.
2. Inventories, wherever maintained, should be comprehensive. We suggested that consideration be given to expanding the Accommodation, Management Information System (AMIS) to show land holdings on a parcel basis instead of the present installation number concept.
3. A division of land inventories between properties required and those surplus to requirements should be attempted.
4. Some additional performance evaluation criteria should be developed to assess the efficiency of the operation. Criteria, presently under review according to Performance Evaluation Reports, were seen to include overhead costs as a percentage of purchase price and selling price. Analysis of expenditures in the manner recommended above would facilitate preparation of this data.
5. Policies and procedures should be updated to reflect current changes. Areas where discretionary powers are given should be stated and the persons authorized to take such action identified.

The foregoing comments were included in a memorandum dated September 28, 1979, the date of this Report. The Ministry has not had an opportunity to respond and we are, therefore, unable to present its views on the subject matter.

51. Cost Savings Recommended Re Ontario Drug Benefit Plan, Ministry of Health.

Under the Ontario Drug Benefit Plan (the Plan) certain drugs are provided free of charge to senior citizens, welfare recipients and certain other eligible persons when these drugs are prescribed by a physician or dentist. Costs to the Ministry of Health, for reimbursing pharmacies and others supplying drugs under the Plan, amounted to approximately \$72.0 million for the year ended March 31, 1978 and \$70.9 million for the ten month period ended January 31, 1979.

Drugs supplied under the Plan are listed in a publication called the Drug

Benefit Formulary/Parcost Comparative Drug Index. This publication is compiled and maintained by the Ministry and its Advisory Committee, the Drug Quality and Therapeutics Committee (Ontario), with the co-operation and assistance of the Ontario Medical Association and the Ontario Pharmacists' Association. Our observations relating to the Formulary were as follows:

1) *Frequency of Drug Dispensing*

In its report, dated April 28, 1978, the Ontario Drug Benefit Formulary Pricing Committee noted that it is common practice to dispense up to a maximum of one month's medication to senior citizens. The Committee suggested that since most of these individuals are on long term therapy, consideration should be given to dispensing more rational quantities at one time to generate savings in prescription fees and, at the same time, alleviate hardship of repeated visits to a pharmacy by the Plan recipients.

At the time of our audit, we saw no evidence that the Committee's suggestion had been acted upon. We felt that a reduction in the number of prescriptions by as little as 10% in one year could result in savings in professional fees paid by the Plan of over \$2 million.

2) *OTC (Over the Counter) Drugs*

Except for drugs designated OTC, reimbursement is based on the lesser of a pharmacy's usual and customary price to the general public and the price listed in the Formulary, plus a professional fee negotiated between the Ontario Pharmacists' Association and the Ministry. Payment for drugs designated OTC is based on the lesser of a pharmacy's usual and customary price charged to the general public and the price listed in the Formulary, the latter price being calculated to include an estimated markup of 40% on selling price in lieu of the pharmacist's professional fee.

Our check of drugs listed in the Formulary indicated that certain drugs, which can be purchased by the general public without prescription, were not designated as OTC in the Formulary. Our review of Drug Benefit Utilization Reports for the months of November 1977 and March 1978 revealed nineteen such drugs. We compared the cost of these drugs to the Plan for the two months with what the cost would have been had these drugs been designated OTC. For our exercise, we calculated OTC prices by increasing the drug cost shown in the Formulary by 66 $\frac{2}{3}$ % (equivalent to 40% on selling price) in lieu of the pharmacist's professional fee. Our comparison indicated net savings which could have accrued to the Plan as follows:

<i>Month</i>	<i>Actual Cost to the Plan \$</i>	<i>Formulary Price plus 66 2/3 % \$</i>	<i>Net Savings \$</i>
November 1977	166,000	144,000	22,000
March 1978	168,000	148,000	20,000

We recommended that a complete review be made of drugs not designated as OTC in the Formulary, but which may be purchased by the general public without prescription, to ascertain whether savings could accrue to the Plan by classifying and pricing such drugs as OTC.

On September 19, 1979, the Ministry replied as follows:

1) *Frequency of Drug Dispensing*

"The recommendations of the Ontario Drug Benefit Formulary Pricing Committee have been acted upon. The question of control of prescription quantity is under discussion with the Ontario Medical Association (OMA) and the Ontario Pharmacists Association (OPA).

"OPA has advised that both associations have tentatively agreed on a compromise position allowing the physician to indicate on the prescription a statement that the quantity prescribed is 'not to be altered'.

"Any change in quantity requirements necessitates alteration of the pertinent clauses of the Ontario Drug Benefit Participation Agreement, and prior negotiations with OPA as providers of service. OPA has indicated that as part of a re-negotiation of the quantity clauses of the Agreement they would bargain for removal of all quantity restrictions, including payment of a fee on all claims rather than the Ministry's 'one fee' policy on maintenance drugs.

"Since the Ministry interprets the quantity clause to mean that a minimum of one month's supply should be normally dispensed, and since information obtained prior to the beginning of the Ontario Drug Benefit program indicated that only 22 days supply was provided on the average prescription, the Ministry could lose the possible advantage of maintaining the current status.

"In addition, there are indications that the one month quantity appears to have little or no effect in comparison with the cash market place, with the possible exception of low cost maintenance drugs such as digitalis and diuretics.

"It is estimated that in the 1979-80 fiscal year approximately \$49.5 million will be paid by O.D.B. for dispensing fees. If the number of prescriptions were reduced by 10% as suggested, almost \$5 M in savings would result. However, no basis was provided for the 10% reduction. It would appear to be entirely arbitrary.

"Numerous factors could reduce the amount of possible savings resulting from increasing prescription quantity. These are, wastage due to drugs paid for on behalf of deceased patients and those otherwise no longer eligible (1/3 of recipients who receive Provincial assistance are eligible only on a monthly basis), increased utilization, overstocking, increased potential for abuse, and savings currently generated by the Ministry policy of paying only one dispensing fee per month on maintenance drugs. These factors could reduce projected savings to a negligible amount.

"The Ministry will continue its attempts to resolve the issue."

2) *OTC (Over the Counter) Drugs*

"The report fails to acknowledge that 'OTC' drugs paid for under On-

tario Drug Benefit are not literally 'taken off the shelf'. In fact all drugs supplied by the program must be covered by a prescription from an Ontario physician or dentist.

"Thus, the marketplace price billed to the Ministry is the price charged to the general public 'when prescribed', not the price when purchased off the shelf. There is usually a substantial difference between these prices.

"Just as the report has given examples of possible savings by listing certain drugs as OTCs, it is possible to illustrate that such a move could greatly increase the cost of other drugs due to the nature of their utilization.

"Rather than expand the list of OTCs, a more cost effective move could be elimination of OTCs from the Formulary. Such a move would have the support of OPA who are on record as advocating this change in the program.

"This Ministry is currently studying all the implications of such a change."

62. Numerous Weaknesses in Government Pharmacy System, Ministry of Health.

The Government Pharmacy and Medical Stores is a unit of the Ministry's Supply and Services Branch. It is a warehousing and distribution centre supplying pharmaceutical products and laboratory supplies to the medical community. The average monthly inventory is approximately \$4 million and is comprised of 70% non-drug and 30% drug items. The pharmacy's customers consist mainly of Ontario Psychiatric Facilities, Homes for the Aged and certain Public Hospitals.

In October 1977, a mini-computer was installed at the Government Pharmacy to maintain the accounting and inventory records of the operation. Computer costs from October 1977 to December 1978 totalled \$49,690 which included rental, maintenance and servicing the equipment. Our review of this operation, together with discussions with the manager of the Government Pharmacy and the internal audit branch, indicated certain internal control weaknesses as noted below:

- The computer operations manual, documentation of systems and program listings had not been updated to reflect changes instituted since the original installation of the computer.
- A number of additional programs, designed to provide relevant statistical and accounting information to management, had not been written and tested.
- A monthly computer produced inventory status report indicates quantities and value on hand and usage over the prior twelve-month period. Inventory written off due to expired shelf life or obsolescence is included in the usage figure. Stock items thus written off are not segregated from quantities sold. Lack of such segregated data entailed, in our opinion, the risk of reordering items written off and, therefore, no longer needed.

- A test count of the inventory was made by the Ministry's internal audit branch on November 28, 1978. Seventy-four items were counted and forty-five differences were found. Twelve of these differences were significant and the inventory records were adjusted by an increase of \$38,032.
- Forty-seven items, which were indicated as being on order by the inventory status report as at November 30, 1978, were traced to the open purchase order file. We noted that purchase orders had not been issued for twenty-six of these items. We were informed that there are inaccuracies in the report, and that items shown as being on order are not actually on order, or the order has already been received without the information having been eliminated from the file.
- Under the previous manual system, the total paid inventory as calculated from the purchases and sales to date was reconciled monthly to the total inventory as shown by the inventory ledger cards. Due to inaccuracies in the inventory status report, reconciliations of a similar nature have not been attempted, apart from a reconciliation as at March 31, 1979. The reconciliation at that date indicated a calculated book inventory of \$4,424,291 whereas the inventory status report showed an inventory of \$4,799,041.
- Invoices are prepared by the computer and numbered consecutively. A test of invoices issued in November 1978 revealed that twenty numbers were missing. It was explained that these breaks in sequence occur when the invoicing program is terminated to allow other programs to be run.
- Credit notes are produced and calculated by the computer based upon a weighted average unit price at the time of return of goods. No comparison is made with the original invoice price. This has the effect of distorting accounts receivable and inventory costs.

We recommended that a complete systems review be undertaken of the Government Pharmacy operation to rectify the above-noted deficiencies.

The following response was received from the Ministry on September 19, 1979:

"An evaluation of the Government Pharmacy and Medical Stores computerized Inventory Accounting System was carried out by the Management Systems Branch of the Ministry during July and August, 1978. Many of the problems mentioned in this report were uncovered and addressed in this evaluation report. However, because of a lack of systems support by the supplier . . . , past attempts to correct and rectify the problems were not very successful until drastic action was taken at the end of June, 1979 by the Director, Supply and Services Branch.

"Because of extensive system testing, a number of the computer programs are undergoing changes. To date, the operations manual is complete pending approval by the Government Pharmacy and Management Systems Branch. System documentation including program listings should be completed by August 3, 1979.

"To date, outstanding programs as per (the supplier's) inventory accounting system specifications have been written, tested, and implemented. In addition, a number of computer programs recommended in the September, 1978 evaluation report have been written, tested, and implemented.

"Because of the lack of a proper adjustment program, dummy invoices were used to reduce stock written off. The use of the adjustment program now in place will correct this situation, and allow Government Pharmacy to adjust the perpetual inventory to a physical count.

"(The) situation (regarding differences between counts and the records) has been caused by numerous program and data errors. The computer programs and all the data errors have been corrected as of July 27, 1979.

"(The) statement (re open purchase order file) is correct and is caused by the purchase order file not being kept current. Part of the operating instructions includes the purging of this file on the periodic basis.

"(The) inaccuracy (re inventory reconciliations) is the cause of one or more computer program errors discovered during system testing. These program errors were identified and corrected during the July 9 to 20, 1979 system testing.

"(The) problem (re missing invoice numbers) occurs when two or more operators are processing invoices simultaneously. Since the problem cannot be eliminated, the printing of the invoice register will now show any numbers that have not been assigned.

"The capture of sales history and the production of the Sales History Report will eliminate (the) problem (of pricing credit notes) and allow Government Pharmacy to give the same credit for the returning item. The production of this report is being discussed with Government Pharmacy, and is one alternative being looked at.

"As of July 27, 1979, the Inventory Accounting System is fully operational and all known deficiencies have been corrected. Program documentation is outstanding and should be completed by August 3, 1979. Once the System has settled in, a subsequent system evaluation will be conducted six months hence."

63. Outstanding Recoveries, Ontario Health Insurance Plan, Ministry of Health.

Medical and Practitioner Review Committees

The Medical and Practitioner Review Committees conduct their work under the authority of sections 5 and 5a of The Health Insurance Act, 1972. Part of their responsibilities is to make recommendations to the General Manager of OHIP on any matter referred to them under section 22 of the Act (i.e. apparent overbillings by physicians or practitioners). As at October 31, 1978, there were 186 referrals to the Medical Review Committee and 59 referrals to the four Practitioner Review Committees outstanding as follows:

<i>Date of Referral</i>	<i>Review Committee</i>				
	<i>Medical</i>	<i>Chiropody</i>	<i>Chiropractic</i>	<i>Dentistry</i>	<i>Optometry</i>
1973-74	1				
1974-75	6				
1975-76	20		1	1	1
1976-77	41	2	4		8
1977-78	77	8	2	1	15
April 1 -					
October 31/1978	41	3	6	1	6
	<u>186</u>	<u>13</u>	<u>13</u>	<u>3</u>	<u>30</u>

Eighty-five of these referrals relate to periods prior to April 1, 1977, indicating lengthy delays in resolving the cases. Such delays tend to detract from the assessment and collection of any recoverable amounts referred to in the recommendations of the Committees. In this respect, recoveries during the nineteen month period to October 31, 1978 amounted to \$175,652 and \$122,790 on over-billings recommended for collection by the Medical Review and Practitioner Review Committees, while outstanding and unrecovered amounts at October 31, 1978 totalled \$830,205 and \$376,133 respectively.

A review of the outstanding balances indicated that appeals had been made or were pending in a large number of cases totalling approximately \$780,000. In addition, the outstanding balances included \$202,286 owing by seven physicians who no longer reside in Canada, and \$5,760 for one physician who resides in another Province of Canada. As action to effect recovery in the case of these physicians was in abeyance, the possibility of collection appeared remote.

A prior audit memorandum, dated June 10, 1976, recommended that when it had been determined that amounts receivable could not be collected from future billings, the Accounts Receivable Section of the Finance and Accounting Branch of the Ministry should be advised and consideration given to assigning collection to the Central Collection Services of the Ministry of Government Services. We felt that this recommendation should be given further consideration.

Private Medical Laboratories

Audits of private medical laboratories conducted by the internal audit branch of the Ministry have revealed a large number of overpayments to these facilities. The overpayments have generally resulted from laboratory tests not specifically ordered by a physician but done and billed, use of inappropriate billing codes or duplicate billings for tests.

Our review to October 31, 1978 revealed that approximately \$5.1 million had been assessed as recoverable from laboratories, of which approximately \$2.2 million had been recovered, leaving a balance outstanding of \$2.9 million. A review of the outstanding balance indicated that a total of approximately \$1.6 million had been outstanding for over one year. At October 31, 1978, a large proportion of the balance outstanding of \$2.9 million, together with amounts already collected by the Ministry totalling approximately \$96,000, were being contested by the laboratories concerned as to the accuracy of the amounts involved.

The Health Insurance Act, 1972, section 22(4), provides that overpayments

made to physicians or practitioners may be recovered by deductions from future payments by OHIP. There is no similar provision for the recovery of overpayments to private medical laboratories. The right of the General Manager of OHIP to deduct overpayments from future moneys was contested by one laboratory at a hearing in the Supreme Court of Ontario on August 29, 1978. The court gave a decision on October 31, 1978 that recoveries in this manner were not authorized under The Health Insurance Act and that the authority to do this should be obtained from the Treasurer of Ontario under the relevant section of The Financial Administration Act. However, this decision was reversed by the Ontario Court of Appeal on May 9, 1979. At the time of our audit, it therefore appeared that the way was clear for the Ministry to recover overpayments from future payments to private medical laboratories, hopefully facilitating collection of outstanding accounts receivable.

To remove any ambiguity, we felt it may be prudent to consider a suitable amendment to The Health Insurance Act, 1972, authorizing the General Manager of OHIP to recover overpayments to private medical laboratories from future payments.

The Ministry wrote to us on September 19, 1979 to advise that:

Medical and Practitioner Review Committees

"Since January 1979, we have received the following recommendations from the Medical Review Committee in respect of the years indicated:

<u>Year of Referral</u>	<u>MRC</u>
1974/75	1
1975/76	6
1976/77	19
1977/78	54

"Legal Counsel for the Ministry has advised that he has discussed the report with (the) Manager, Central Collection Services, Ministry of Government Services. He has indicated that he would be able to be of little, if any, assistance to the Plan with regard to physicians who have left the Province of Ontario, in that they do not pursue individuals who have left the Province other than by writing such individuals and advising them of their outstanding obligations.

"It would, therefore, appear that no useful purpose would be serviced in following this recommendation."

Private Medical Laboratories

"It is the opinion of our Legal Branch that in view of the decision of the Ontario Court of Appeal supporting the General Manager's right to deduct overpayments made to Private Medical Laboratories from their subsequent payments, any suggested amendment to The Health Insurance Act, 1972, for removal of ambiguity in this regard, is unnecessary."

64. Substantial Funding of Medical Clinic Questioned, Ministry of Health. A certain medical clinic has operated as a community health service organization in

an Ontario municipality for a number of years. From October 1971 to April 30, 1977, the clinic was financed by the Ministry of Health on a capitation basis as opposed to the Ministry's traditional fee-for-service method of funding. Under the capitation system, the clinic received a gross monthly amount, determined by multiplying the updated number of enrollees on its roster by an agreed upon per capita monthly rate. This gross amount was reduced by all fee-for-service claims paid by OHIP for services rendered to capitation enrollees by physicians not practising at the clinic.

From May 1, 1977 to April 30, 1978, the clinic was paid a fixed monthly amount of \$47,460, based on the net total paid to it during the Province's 1976-77 fiscal year, suitably adjusted for increases in the provincial per capita costs and Ontario Medical Association (OMA) fees. The monthly payment was increased to \$59,399 effective May 1, 1978 to allow for an increase in the clinic's roster with the absorption of the practice of an additional doctor. The fixed monthly payment method was to have continued for a limited period until such time as a new roster reimbursement system had been developed. However, due to the delay in finalizing a new system, the interim fixed method of financing was allowed to continue.

During the year, we conducted a review of the funding of this Clinic. The ensuing major observations and recommendations resulting from our review were contained in a memorandum sent to the Ministry of Health on April 24, 1979. Relevant portions of the Ministry's reply, dated August 3, 1979, are included after the comments to which they pertain. In addition, the Ministry provided us with detailed information concerning the development of the Health Services Organization (HSO) project.

Clinic Financial Statements

Based on the clinic's financial statements furnished to the Ministry for the two years ended April 30, 1978, the gross income of each of the present clinic partners, none of whom holds a specialty licence, greatly exceeded the provincial average gross income of a general practitioner. This average, as disclosed by statistics maintained by the Ministry of Health, amounted to approximately \$50,000 in 1977 and \$55,000 in 1978. Even the net income of each of the clinic's partners, after allowance for administrative costs, substantially exceeded the provincial average gross income in each of the two years.

We recommended that a review be made of the fixed monthly amount being paid to the clinic in view of the high earnings of the partners. In view of the other amenities available (regular hours, longer vacations, etc.), a properly determined remuneration agreement should, in our opinion, generate net income to clinic physicians which more closely relates to the provincial average for general practitioners.

Ministry reply:

"Capitation payment will be made to the HSO for 'rostered' patients based on O.H.I.P. average payment for the preceding year, e.g. payments for roster members in 1979 will be based on O.H.I.P. averages from the Tables produced in December 1978. (Methods applied and examined to date have included global funding based on cost of services, salary

plus overhead, assessment of previous O.H.I.P. earnings, and capitation). The current proposal will provide payment based on the previous years costs to O.H.I.P. Starting in 1980 these will be age-sex adjusted.

"Capitation payment will be withheld in any month during which a patient goes outside the clinic for equivalent service, notwithstanding the fact that the person may also receive service from the clinic during the same month.

"Sponsors of HSO's retain sole discretion as to the distribution of operating funds received under the capitation payment method. This then does not allow the Ministry to make any determination as to the draw received by partners and participating or associated physicians.

"Income of physicians within individual HSO's varies considerably, being below, at, or in excess of Provincial average income for physicians. There is also no way of determining what the income of any HSO might be, were they on fee-for-service. (This) Clinic for example by practicing a more traditional form of practice, and perhaps by opting out of O.H.I.P. might be able to provide their partners with a remuneration considerably higher than now received. This could be accomplished by, for example, reducing their present non-physician staff."

Upon reviewing the clinic's financial statements, we observed that the clinic had entered into an arrangement in 1978 with a management company, whose officers and directors were relatives of the three present partners of the clinic. The company was paid a fee of approximately \$205,000 to manage and pay the administrative, office and building expenses of the clinic in 1978 whereas comparable expenses in 1977 amounted to only \$97,000. Since the roster of the clinic remained relatively static at approximately 8,000 throughout the period, the dramatic increase in the cost of running the clinic was questionable.

If the financial statements are to serve as a monitoring device with respect to the clinic's financial operations, we felt the Ministry should be concerned about the non-arm's-length relationship of the clinic partners with the principals of the management company, and the profit element included in the fees charged by the management company.

Ministry reply:

Financial statements are required "in light of the possibility that an HSO, or the Ministry, would decide not to renew a contract and a reconciliation would have to occur.

"The relationship of Clinic partners and the principals of the management company is not illegal and is used by numerous physicians and groups in order to take full advantage of legitimate tax laws and regulations."

Clinic Roster

We noted that patients are not required to sign authorization forms. The

1976-77 agreement provided the clinic with the right to determine whether or not a patient should be removed from the roster.

We recommended that the roster of the clinic be re-established and verified by the Ministry prior to the signing of a new agreement. This could be done, subject to legal clearance, by having each contract holder sign a membership authorization form for himself and all members of his family wishing coverage. Such form should include a clear explanation of what capitation is and how it works.

We further recommended that guidelines be established covering additions and deletions of roster members, together with periodic monitoring of the ongoing roster by Ministry personnel.

In view of the contemplated expansion of the clinic's roster through the absorption of three additional practices in 1979, we recommended that the Ministry consider carefully the implications of this expansion. The increased roster would then be dispersed over a wider area by the use of satellite clinics, and would cause greater administrative complexities and financial costs.

Ministry reply:

"Effective May 1, 1979, all HSOs commenced using a revised Health Service Organization Enrollee Reporting Form. HSOs commencing capitation negation agreements are required to obtain such authorizations from eligible enrollees.

"A procedures manual is now completed detailing the rules and regulations of the roster reimbursement system, including enrollment, changes, corrections and terminations. Detailed scrutiny of the roster system is required on a monthly basis to calculate capitation and negation payments. Verification of this roster will be accomplished via an Address Capture/Verification system. HSO roster members will be sampled on a random basis to determine they have completed and signed an HSO enrollee reporting form and that they intend to remain on the roster as members of the HSO. This verification is analogous to the O.H.I.P. system of querying O.H.I.P. subscribers as to whether O.H.I.P. billed services were actually performed.

"Since it is distinctly to the advantage of the Ministry to have larger rosters, recognizing the reduction in outside services which result, the addition of new roster members is to be encouraged not discouraged."

Evaluation of Program

This Medical Clinic, together with a majority of the other twenty-eight similar organizations, is currently being funded under the Health Services Organization (HSO) Program. This Program was formulated by the Ministry of Health in 1973 to establish and implement an alternate form of providing, organizing and financing health services. The objective was to effect a total cost reduction in the practice of health care per person, while maintaining or improving quality of health care. This program, which is considered by the Ministry to be still in the experimental stage, is being researched as a viable alternative to the traditional fee-for-service method of payment.

Our review and discussions revealed that sufficient statistical evidence had not been gathered to provide an adequate evaluation of the viability of the capitation system and the economic advantages to Ontario in health care costs. Although program objectives have been broadly defined, there was no measuring device to assess whether the objectives of the program are being met. This was particularly true in the case of the clinic we reviewed where, to our knowledge, no comparison of costs between the capitation method of funding and the traditional fee-for-service system has ever been performed. Since the agreements have never required the clinic to provide the Ministry with detailed types of services rendered to patients, it has not been possible to cost these services on a fee-for-service basis.

Ministry reply:

"... cost comparisons are in process of development to permit continuing review of total health costs compared with clinic costs. Preliminary studies have been conducted but refinements of these methods of comparison are necessary if accurate assessment is to be made."

Regarding record of services data, "a number of 'encounter' information procedures have been examined, . . . designing a special encounter form to provide information on internal HSO activity.

"It is intended to have this, or a revised version, in use by the end of this year".

We understood that effective savings in health care costs will only be achieved when a population of 3,000,000 is enrolled in the HSO program, and that these savings will occur mainly in the area of reduced hospital costs, through the practice of preventative medicine. The total enrollment at the time of our review was only 150,000 in the twenty-nine health service organizations currently in existence. Consequently, the likelihood of ever achieving the population objective of 3,000,000 seemed remote.

Ministry reply:

"Savings can be effected with smaller numbers but, clearly, a large influx of members to HSOs would have a significant impact on the health care system."

Accordingly, we felt there was a need for some method of evaluating the medical services provided by the clinic and comparing the cost of such services to equivalent treatment costs under the traditional fee-for-service system. In the absence of such evaluation, there is no knowledge regarding the economic advantage, if any, to the Ontario taxpayer.

Ministry reply:

"Unfortunately, due to the difficulty in identifying and gaining acceptance by Normative Practice Units, against which the HSOs might be compared, the original intent of the Ontario Council of Health Evaluation Study will not be possible to achieve. Some aspects of that study, however, such as those relating to accessibility of services, patient satis-

faction, and quality of care indicators, may be obtained in other ways which are under examination.

"Studies of cost factors relating to overall health costs, in contrast to comparison of primary care health costs only, continue to be developed.

"Each HSO is being required to establish program goals and objectives which are measurable and thus an internal process of evaluation has been begun with each HSO.

"In these ways it is our intention to attempt definitive studies which will assist us in strengthening the beneficial and cost-effective aspect of this program.

". . . , all HSO's will be required to compile records of services data, related to the eligible enrollees receiving care under the clinic program through the use of an 'encounter' form. However, direct comparison with fee-for-services charges is not possible for the following reasons:

- (a) The difficulties of ascribing services of non-physicians to fee-for-service codes.*
- (b) The impossibility of determining what the HSO's mode of practice and volume of claims might be were they billing fee-for-service for patient volume rather than receiving a capitation payment for the assumption of responsibility for the health care of a defined roster population.*
- (c) The inherent limitations of attempting to develop and compare rosters and practices in a similar normative practice unit (i.e. as detailed in earlier comparative studies of group practices with the Sault Ste. Marie and St. Catharines organizations).*

". . . , current evidence based on research with HMO's (Health Maintenance Organizations) in the United States and studies undertaken in Ontario indicate that there may be no direct savings in primary care but in other areas, i.e. reduction of hospital use, physician visits, specialists' services, laboratory costs and discretionary procedures. In the case of (the clinic in question), the study conducted by McMaster University on quality of care under the HSO program indicated a reduction in unnecessary surgery and current comparisons of admissions and length of stay in acute hospital care in (the County in which the clinic is located) indicates a reduction in admissions and length of stay.

"The O.H.I.P. fee-for-service system encourages increases in activity-procedures and visits. Direct assessment of clinical activity is therefore meaningless. Average cost per person must be the basis upon which comparison is made. Actual payment to the clinic during the period May 1, 1977 to April 30, 1978, amounted to an average per capita payment of \$68.00. Equivalent Provincial average cost per person from April '77 to March '78 was approximately \$82.00. The average monthly total cost of patients seen by the clinic, including total outside services

paid by O.H.I.P. for a ten month period November '77 to August '78 was \$103.35. The average Provincial cost per capita during that period of time was \$105.21 (O.H.I.P. figures for April '77 to March '78). As may be seen from this comparison, no substantial saving has been derived in primary care, but no excess costs were experienced either.

"Comparisons must be evaluated in the context of a capitation payment method. Since payment in the HSO payment programs will be based on the average cost per person in the previous year (based on data each December) overall payment for a roster cannot exceed the Provincial average."

65. Approval for Contract Not Obtained from Management Board of Cabinet, Ministry of Housing. On June 21, 1977 the Management Board of Cabinet approved a request from the Ministry of Housing to proceed with the development and implementation phases of its Operational Financial Information System (OFIS) project. In this respect, Management Board approved the awarding without tender of a contract for project management services to a firm of data processing consultants, on the understanding that billings for these services would not exceed \$300,000. On August 31, 1977 an agreement was entered into with the consultants providing for a maximum cost of \$300,000, exclusive of out-of-pocket expenses during the work period from July 4, 1977 to May 31, 1979. As of October 31, 1978 payments against this agreement amounted to approximately \$264,000.

In addition to the above-mentioned agreement, we noted that the Ministry also awarded a contract of \$15,000 to the consultants for "extraordinary specialized resources and administrative support for the OFIS project". This contract, which was explained as relating to out-of-pocket expenses and services not specified in the original contract, was renewed four times. As of October 31, 1978 payments against this contract totalled approximately \$75,000. In our opinion, specific Management Board approval should have been obtained for these additional costs.

The Ministry wrote to us on April 25, 1979 to advise that:

"Your observation that the \$75,000 paid to Data Processing Consultants for out of pocket expenses and special resources should have been approved by Management Board, is noted. However, the original contract approved by Management Board was exclusive of out of pocket expenses, therefore, no further authorization for such costs was required. The special resources portion of the \$75,000 total payment related to activities not included in the original contract and payment for such special resources was well within the authority granted to a Ministry by the Ontario Manual of Administration. Even though specific approval for these expenditures was not required, the Ministry did identify and report on these charges in progress reports to Management Board on the OFIS project."

66. Procedural Improvements Recommended Re Grants Paid Pursuant to Ontario Home Renewal Program, Ministry of Housing. Pursuant to section 2a of

The Housing Development Act and regulations thereunder, grants based on population are provided to municipalities to assist owner-occupants in the repair, rehabilitation and improvement of their homes. The municipalities are responsible for administering these funds, which are used in making both forgivable and repayable loans up to a maximum of \$7,500, to owner-occupants whose adjusted annual family incomes, as described in the regulations, do not exceed \$12,500. The municipalities retain the capital and interest payments arising from loans being repaid and redistribute the funds in accordance with the regulations.

From the inception of the Ontario Home Renewal Program (OHRP) in September 1974 to September 30, 1978, in excess of \$85 million was paid by the Ministry of Housing to over 600 municipalities participating in the program. Our review of payments to a number of municipalities revealed the undernoted deficiencies as at September 30, 1978:

- Four municipalities had failed to utilize a significant portion of grants paid to them during 1975 and 1976. One of these municipalities, which received approximately \$566,000 on March 27, 1975, had unutilized funds on hand of \$347,000. Another municipality, which was reported in a prior audit memorandum dated July 13, 1977 as having been granted \$133,230 on March 31, 1976, had unspent funds of approximately \$65,000 on hand. In view of these observations, we recommended that a complete review be undertaken of all grants paid to date and repayments of unutilized funds requested from the municipalities concerned, as empowered by legislation.
- Procedures of the Ministry require municipalities to submit a Quarterly Activity Summary. We noted that six municipalities had not submitted this summary since March 31, 1977 while another seven municipalities had not submitted the summary since receiving OHRP funds during the period May to August 1977. Management has acknowledged a lack of follow-up and has agreed to take corrective action.
- Regulation 764/76 made under The Housing Development Act requires each municipality to establish a fund and deposit in the fund all moneys received pursuant to the regulation, all moneys received in repayment of loans made under the regulation and all interest accruing thereon. To ensure proper accounting and compliance with legislation, we recommended that audited financial statements of the fund be requested from larger municipalities, for example, those with a population of over 10,000. We further recommended that a provision for audited financial statements, to be submitted annually by such municipalities, be incorporated in the Municipal Responsibilities and Functions Guide provided to assist participating municipalities in the delivery of OHRP.

The following response was received from the Ministry on April 25, 1979:

"Your observation that OHRP funds in four municipalities were under utilized is acknowledged. These grants were made in the early stages of the program when it was Ministry policy to automatically grant at least 50% of the requested amount or a minimum of \$29,000, where program guidelines were

met. The four noted municipalities were new applicants with no previous record of expenditure, and received funds in accordance with the above outlined Ministry policy. No further funds have been advanced to these or any other municipalities with unutilized funds.

"A complete review of all grants paid to municipalities is now under way. This review by the Ministry could result in the recall of unutilized funds from specific municipalities where the program is not active.

"Your comment respecting the Quarterly Activity Summary is noted. This report was not required at the inception of the program and was introduced by the Ministry during the latter part of the 1976-77 fiscal year. The Ministry experienced some difficulties in obtaining these reports for a variety of reasons including lack of municipal expertise and change in municipal administration.

"Until very recently the Ministry was monitoring quarterly reports for 617 municipalities on a manual basis. These manual records have now been computerized and the Ministry is able to initiate follow-up action more promptly.

"Your recommendations that municipalities be required to submit audited financial statements of the fund established for the operation of OHRP grants is accepted. The Ministry is currently examining the development of guidelines for the use of Municipal auditors respecting reporting on the status of OHRP grant funds."

67. Observations Re Tourism Marketing Development Operations, Ministry of Industry and Tourism. During the year, we completed a detailed review of the Ministry's Tourism Marketing Development Activity, dealing essentially with the objectives of this Activity and the measures being used to assess the effectiveness thereof. Expenditures for this Activity amounted to \$10.5 million for the year ended March 31, 1979.

The objectives of this Activity are to:

- Encourage more Canadians to vacation in Ontario.
- Stimulate more long term American visitors to Ontario.
- Capitalize on the large potential that exists in prosperous Western Europe and Japan.
- Improve tourism awareness and hospitality attitudes.

Although the objectives specify "Canadians" and "Americans", the mass media advertising strategy of the Ministry has concentrated for the most part on three Canadian markets, namely, southern Ontario, Montreal and Winnipeg, and on ten states of the U.S.A. Other areas of Canada and the U.S.A., therefore, remain relatively unexposed to the Activity's advertising output.

According to Ontario Statistics, 1978, Ontarians/Canadians are increasing their travel to the United States and Americans are coming to Ontario in decreasing numbers. These results do not necessarily mean that this Activity has proven ineffective, for it is recognized that many other factors influence travel plans —

weather, cost of living, etc. However, we felt that the objectives of the Activity are not sufficiently well defined to permit any meaningful evaluation of achievement level. For example, the terms "more", "capitalize" and "improve", which are stated in the marketing objectives, should be quantified to the extent possible.

Canadian (domestic), U.S.A. and overseas marketing plans are prepared annually by the Tourism Marketing Branch to pursue the attainment of the previously mentioned objectives. The basis for strategies is management experience and judgement together with information from advertising awareness surveys. In our opinion, such experience and judgement, when reinforced by factual and analytical data from marketing research, is a sound foundation from which effective marketing strategies can be developed.

We recommended that management and the marketing research section undertake the challenge to develop more factual and analytical research data for the better evaluation of marketing activities. Surveys should be directed at establishing linkages between the individual marketing activities and fluctuations in tourist visitations. In this regard, we noted that instead of the annual advertising awareness and recall surveys, terms of reference dated June 21, 1979 had been drafted to evaluate the Spring/Summer 1979 advertising campaign through contact with individuals who had requested travel information from the Branch. The results of these surveys, together with further market research and travel demand surveys, should be beneficial in directing marketing strategies and developing attainable and measurable marketing objectives.

Advertising

Expenditure for mass media advertising for the 1978-79 fiscal year was \$4.9 million, accounting for 47 per cent of the Tourism Marketing Development expenditure.

Measures of advertising effectiveness are considered essential to ensure good planning and control of advertising. Without measurement, poor advertising efforts may be repeated and effective efforts abandoned. For a number of years the Ministry has measured, using external consultants, the post-communication effect of its annual advertising campaigns through awareness studies conducted in four American and three Canadian cities. The following is a four-year summary of the results of these surveys.

American Cities

	1975	1976	1977	1978
	%	%	%	%
Law Ontario advertising	74	73	62	57
Specifics recalled	54	55	46	37
Intent to visit Ontario	4	2	4	4

Canadian Cities

	1975	1976	1977	1978
Law Ontario advertising	51	58	52	54
Specifics recalled	39	43	38	36
Intent to visit Ontario	9	5	8	11

Due to the numerous sources of advertising for Ontario and Canada, the Ministry's advertising campaign is considered as performing a cumulative function, adding its

weight to other tourism advertising. As a result, the effect of such other advertising, in most cases, cannot be removed from the results of the surveys.

It is interesting to note the decrease in awareness and recall levels in the American Cities schedule in spite of the advertising objective "to increase the awareness of Ontario's vacation appeals among Americans . . .". We understood that the 1977 decreases of 11 and 9 percentage points in awareness and recall of Ontario advertising in American cities resulted from the decision to discontinue, due to its costly nature, the use of television advertising. In this regard, reference should be made to our previous recommendation in regard to measuring advertising effectiveness, together with preliminary action by the Ministry.

Hospitality Attitudes and Tourism Awareness Program (HATAP):

"We Treat You Royally"

OBJECTIVES

The objectives of this program, which commenced in the 1978-79 fiscal year, are as follows:

1. To improve management attitudes towards training personnel in the Ontario hospitality industry.
2. To increase awareness among Ontario citizens of the importance of tourism to the economy of the Province.
3. To pre-dispose Ontarians to actively welcome visitors from other areas.

As far as we could determine, no research studies were specifically conducted by the Ministry to substantiate whether any expressed concerns were significant enough to warrant the launching of this program. Apparently the program was conceived in response to pressure from the Ontario tourism industry. In our opinion, a valid assessment of the program's effectiveness cannot be made, since no quantitative data was collected at the outset against which results can be measured.

With regard to objectives 2 and 3, an investigation of the proposed project conducted during its identification (feasibility) phase by a public relations firm, indicated that it was unable to establish any general antagonism towards tourists — Americans or otherwise. In fact, there were more examples of tourists reacting warmly to the Canadian environment. Additionally, the Ministry's 1977 and 1978 mass media advertising awareness studies reported that among Americans polled, Ontario was rated better than good as to friendliness. We felt, based on the preceding information, that Ontario does not have a perceived reputation as an inhospitable vacation destination. Further, in August 1978, the results of a survey conducted to assess the effectiveness of HATAP's first campaign indicated that 84 per cent of those polled felt that tourism was indeed important to their area.

FINANCING

On April 11, 1978 Management Board of Cabinet approved an authorization for commitment to engage a public relations firm to design and implement a "Tourism Awareness Program".

Three firms were invited to submit proposals and, after a review by the Ministry's Selection Committee, a recommendation was made and approved by Management Board of Cabinet on May 9, 1978 to hire a firm to design and implement a "Tourism Awareness Program". The agreement was to take effect on the date of the award and terminate May 1, 1980. Estimated financial costs for the program were stated as being \$125,000 and \$150,000 for fiscal years 1978-79 and 1979-80 respectively. The decisive factor in the Committee's recommendation to hire the firm was the evaluation criterion (one of seven listed), "Immediate availability of such key personnel to launch the program to meet the urgency of the situation". The recommended firm had been involved in the Ministry's proposed tourism awareness campaign since December 1977. As noted earlier, the "urgency of the situation" was not apparent to us.

On September 27, 1978 the Ministry requested approval from Management Board of Cabinet for an additional amount of \$335,000 in 1978-79 as it became apparent at the design stage of the program that its objectives could not be achieved to an acceptable degree with the initially assigned budget. No additional funds requirement for fiscal year 1979-80 was indicated. A summary of the original and revised requests for 1978-79 follows:

	<i>Original</i> \$	<i>Revised</i> \$
Newsletter	25,000	23,000
Services	40,000	215,000
Merchandising	60,000	129,000
Training	—	30,000
Events Tie-in	—	43,000
Grey Cup Parade	—	20,000
	<u>125,000</u>	<u>460,000</u>

Approval for the additional funds was received from Management Board of Cabinet on October 23, 1978 with the understanding that the Ministry would submit, prior to the 1979-80 Estimates Review, details of the specific results to be achieved and the criteria by which the success of the program would be measured. At the conclusion of our field work at the end of July 1979, this condition had not been fulfilled.

No agreement was entered into with the public relations firm in respect of the original approval by Management Board of Cabinet. However, on June 27, 1978, prior to Management Board of Cabinet's approval to enlarge the program, the Ministry signed an agreement with the firm for an amount not to exceed \$672,000 during the period ending May 1, 1980. Program expenditure to March 31, 1979 totalled \$605,630, therefore exceeding the revised approved amount for the year by \$145,630.

Based on the program budget of \$575,000 for 1979-80, we noted that the total expenditure is expected to be about \$1.2 million, a figure some \$500,000 in excess of the agreement amount. In effect, the anticipated program expenditure will be about 4 times the originally conceived amount of \$275,000.

The preceding comments were included in our memorandum of September 18, 1979 to the Ministry. As at the date of this Report, September 28, 1979, the

Ministry has not had sufficient time to reply. As a result, we are unable to present its view on the matters raised.

68. Comments on Hamilton-Wentworth Review Commission, Ministry of Intergovernmental Affairs. The Hamilton-Wentworth Review Commission was established by Order in Council 2588/77 to examine, evaluate and make appropriate recommendations on the structure, organization and operation of local government within the Regional Municipality of Hamilton-Wentworth. The costs of the Commission for the first year 1977-78 amounted to \$337,797 and for the period April 1 to August 31, 1978 amounted to \$55,709.

The Commission has made extensive use of consultants, and contracts covering their services were reviewed during a Ministry audit. We found that of five contracts reviewed, four had been awarded without requesting a minimum of three quotations. In the one case where the minimum number of quotations had been requested, the consultant with the highest price was accepted. Contracts amounting to \$73,638 were drawn up with this consultant, but a total of \$103,962 was ultimately paid. This total was comprised of the following:

Contract price	\$ 73,638
Estimated travel and out of pocket expenses not included in contract	3,000
Payments to municipal auditor for collection and documentation of 1972 financial data	7,510
Special services for writing of final report	8,318
Commission's contribution to consultant's overrun costs: a maximum of 15 per cent of contract price was paid	11,496
	<u>\$103,962</u>

Six thousand copies of the report of the Commission were printed in May 1978 at an approximate cost of \$25,000. One thousand copies were delivered to the Publications Service of the Ministry of Government Services and 1,746 copies were distributed to the municipalities in the region, local libraries and other interested parties. The remaining 3,254 copies were delivered to the Local Government Organization Branch of the Ministry. We understood that this Branch will provide copies of the report free of charge to interested parties, while at the same time the Publications Service is attempting to sell its copies at \$4 each. It was not clear to us what goal was intended by using both methods of distribution.

The foregoing comments were included in our memorandum of April 25, 1979 to the Ministry. We have no record of a reply as at September 28, 1979, the date of this Report. Therefore, we are unable to present the Ministry's views on the matters raised.

69. Rationale for Grant Payments Queried, Ministry of Intergovernmental Affairs. The Audit Act, 1977, section 13 permits the Auditor to perform an inspection audit in respect of a payment in the form of a grant from the Consolidated Revenue Fund. In this connection, the records of certain grant recipients were reviewed.

The Municipal Liaison Committee was formed in 1969 by Ontario's municipal associations to establish a forum for the discussion of mutual concerns and to act

as a spokesman for the municipal governments of the Province. The Committee has received annual grants of \$50,000 from the Ministry in recent years, and since 1977 it has also received grants from its four constituent members. Grants from the constituent members totalled \$10,000 for 1977 and exceeded that amount for 1978 according to the records of the Committee as at October 31, 1978. Three of the four constituent members are municipal associations which also receive grants from the Ministry. In 1977 one of these associations contributed \$1,000 to the Committee which was equal to the grant it received from the Ministry, and another contributed \$2,000 which was equal to two thirds of the grant it received from the Ministry. The need for the grants to these two associations therefore seemed questionable.

The Association of Municipalities of Ontario was formed in 1972 with objects which included the representation of municipalities collectively and the procurement of the enactment of legislation advantageous to the municipalities of Ontario. The Association received a grant of \$50,000 from the Ministry during 1977 and paid a grant of \$5,000 to the Municipal Liaison Committee. There also appeared to be some duplication of purpose between this Association and the Municipal Liaison Committee, since both make representations on behalf of Ontario municipalities to the Provincial Government. We recommended that the matter of overlapping services being provided by municipal organizations be considered when determining future grants to these organizations.

The foregoing situation was commented on in our memorandum of April 25, 1979 to the Ministry. As at the date of this Report, September 28, 1979, we have no record of a reply. We are, therefore, unable to present the Ministry's views on the subject matter.

70. Significant Coding Errors Re 1977-78 Public Accounts, Ministry of Northern Affairs. Our initial audit of the Ministry of Northern Affairs covered the period from its establishment on April 1, 1977 to July 31, 1978.

During the course of our audit, we found that 1977-78 expenditures in a number of cases either had not been charged to the proper Program and Activity, or had not been recorded in the correct Standard Accounts Classification within the Activities. The following table represents a summary of the net effect of such coding errors:

	<u>Overstatement</u>	<u>Understatement</u>
	\$	\$
Northern Communities Assistance Program:		
Community Priorities Activity —		
Acquisition/Construction of physical assets	893,382	
Transfer payments		1,062,702
Townsite Development Activity —		
Services		205,403
Transfer payments	205,403	
Isolated Communities Activity —		
Supplies and equipment		372,532
Transfer payments	372,532	
Regional Priorities and Development Program:		
Regional Priorities Activity —		
Services		1,321,644
Acquisition/Construction of physical assets	1,451,043	
Northern Roads Activity —		
Acquisition/Construction of physical assets	321,348	
Resource Access Roads Activity —		
Acquisition/Construction of physical assets		38,689
Remote Airport Development Activity —		
Acquisition/Construction of physical assets	39,921	
Rail and Ferry Services Activity —		
Transfer payments		282,659
	<u>3,283,629</u>	<u>3,283,629</u>

Accordingly, the figures compiled for presentation in the Public Accounts of Ontario for the fiscal year 1977-78 did not show a true picture of the Ministry's financial transactions.

The preceding understatement of \$282,659 regarding the Rail and Ferry Services Activity relates to expenditures applicable to the Moosonee Ferry (\$208,649) and a barge for Lake Nipissing (\$74,010). These payments were made to the Ontario Northland Transportation Commission, which operates the ferry and appears to have title to the barge, and were charged to the Northern Roads Activity (Acquisition/Construction of physical assets). In our opinion, these expenditures represented transfer payments, and should have been charged as such to the Rail and Ferry Services Activity.

It should be noted that, had these expenditures been charged to the Rail and Ferry Services Activity, the total expenditure for this Activity would have amounted to \$10,856,669, as opposed to the total appropriation of \$10,575,000 for the Activity.

In their February 28, 1979 reply to our memorandum, the Ministry stated that such expenditures are now paid for through "the M.T.C. Maintenance Budget".

The Ministry also acknowledged the other coding errors contained in the preceding table and stated, in part, that steps have been taken "to improve the system of coding of expenditures. This should result in better accuracy in the recording of expenditures".

71. Apparent Overexpenditure of Agricultural Development Activity, 1977-78 Public Accounts, Ministry of Northern Affairs. In the 1977-78 fiscal year, the Agricultural Development Activity of the Ministry included transfer payments relating to subsidies for the costs of fertilizer and seed, and transportation of hay and limestone, as well as grants to agricultural and horticultural societies. Ministry officials stated that the authority for payment of these subsidies was Order in Council 384/77, dated February 9, 1977, which established the Northern Ontario Agricultural Development Assistance Program. Hay transportation assistance was stated to be authorized under this program, but expenditures relating to such assistance and amounting to \$218,337 were transferred from the Agricultural Development Activity (903-5) to the Regional Priorities Activity (903-1). If the hay transportation assistance had remained as a charge to Agricultural Development, the appropriation of \$555,000 would have been exceeded by \$201,977. Under these circumstances, we felt that the sum of \$218,337 should not have been transferred. A request to increase the Agricultural Development appropriation should have been made to Management Board of Cabinet.

The Ministry replied to our comments on February 28, 1979:

"The Hay Transportation Assistance program was part of our special drought relief assistance efforts. This expenditure was made in response to an emergency situation and could be viewed as an expenditure similar to those made as a result of the Cobalt fire."

We note, however, that expenditures made as a result of the Cobalt fire were authorized by a Special Warrant.

72. Late Deposit and Recording of Taxation Revenue, Ministry of Revenue. In March 1979, the Department of National Revenue (Canada) had determined the final amount of Ontario Income Tax due to the Province of Ontario for 1977, as follows:

Ontario Income Tax		\$32,344,981
Less: Ontario Tax Credits	\$5,554,531	
Tax Credit Administration Fees	<u>4,322,704</u>	<u>9,877,235</u>
		<u>\$22,467,746</u>

According to a letter dated March 27, 1979, from the Director, Federal-Provincial Relations Division, Department of Finance (Canada) addressed to the Deputy Minister of the Ministry of Treasury and Economics, this amount was deposited to the credit of the Province of Ontario on April 2, 1979 at the request of the Ministry of Treasury and Economics. We did not understand why this arrangement was made, since the agreement with the Government of Canada pertaining to the collection of income tax required the payment to be made on or before March 31, 1979. The course of action taken resulted in the payment from the Government of Canada in the amount of \$22,467,746 being credited to revenue in the 1979-80 fiscal year rather than in the 1978-79 fiscal year.

The delayed payment also resulted in a loss of revenue to the Province. If payment had been received on the last business day of the fiscal year (March

30, 1979) the Province would have had the funds four days sooner. Interest in the amount of \$17,235 could have been earned on this sum for four days at the short term rate at that time (7 per cent).

On August 22, 1979 the Deputy Minister replied as follows:

“As stated in your memorandum, the final amount of Ontario Income Tax due to the Province of Ontario for 1977 was, contrary to the agreement with the Government of Canada which calls for payment to be made by March 31st, deposited to the credit of the Province of Ontario on April 2, 1979, on instructions from the Ministry of Treasury and Economics. That Ministry subsequently confirmed to us that the amount was to be credited to the 1979-80 fiscal year.

“The fact that this payment was not in transit as at March 31, 1979, and therefore credited to the 1979-80 fiscal year in accordance with Accounting Policy Statements and Instructions, was set out in my annual report to you on Federal/Provincial Agreements, which was forwarded on April 24, 1979.”

We are aware that this amount was not in transit as at March 31, 1979. However, as far as we could determine, the reason for this delayed payment was the request from the Ministry of Treasury and Economics that it not be deposited until April 2, 1979. As previously stated, we did not understand why this arrangement was made.

73. Observations Re Revenue Collected under The Provincial Land Tax Act, Ministry of Revenue. Generally, land situated in territory without municipal organization is liable to tax under The Provincial Land Tax Act. Revenue collected under the Act amounted to \$2,216,234 and \$2,260,758 in the fiscal years 1977-78 and 1978-79 respectively. Our review of the Provincial Land Tax Register and the underlying records disclosed the following:

- 1. The land assessment activity formerly carried out by the Ministry of Natural Resources has been discontinued and the assessment of land at current values for Provincial Land Tax purposes is far in arrears. A comparison was made of the assessed value of certain parcels of land with the prices at which the last conveyances were made. Discrepancies were observed in some of these cases, such as the following:

<u>Date of Last Assessment</u>	<u>Assessed Value</u>	<u>Date of Last Conveyance</u>	<u>Consideration on Conveyance</u>
	\$		\$
August 1974	410	May 1974	85,000
August 1974	410		
Undated	400		
February 1975	6,830	May 1976	110,000
October 1973	27,146	September 1977	139,000
September 1974	7,700	May 1975	260,000
June 1977	2,110	August 1969	74,500
July 1971	9,200	October 1973	84,000
	<u>54,206</u>		<u>752,500</u>
Tax at 1½%	813		11,287

Therefore, approximately \$10,000 in annual tax revenue was lost due to the failure to use the current market values in computing Provincial Land Tax in the above cases alone. It is evident that the total tax loss could therefore be quite substantial.

2. The annual interest charges on unpaid accounts which were to be imposed as of April 1, 1978 were omitted in the computer update runs and have not been posted to the records. The amount of interest not charged was understood to approximate \$17,000.
3. There was insufficient evidence to form an opinion as to whether or not all land in the Province subject to Provincial Land Tax has been listed in the Provincial Land Tax Register. It is known that some land sold or leased by the Ministry of Natural Resources is not listed in the Register although the land appears to be subject to Provincial Land Tax.
4. Caution notices had not been filed in respect to over 1,000 properties which had become subject to forfeiture proceedings because of non-payment of tax arrears.
5. Some balances representing tax arrears on forfeited properties had been deleted from the accounts without authority of Order in Council.
6. Accounting procedures provide for the billing of the Provincial Land Tax on some lands on a "consolidated account" basis. In the period under audit, some of the "consolidated accounts" were discontinued and the taxes for the land were reported to have been transferred to an "open tax roll" billing basis. It was not possible for us to verify that all such tax charges had been transferred accurately.

We recommended that the Audit Services Branch of the Ministry of Revenue be requested to make a comprehensive study of the Provincial Land Tax Program to determine in particular what measures are required to ensure that:

- (a) all land subject to Provincial Land Tax is entered in the Provincial Land Tax Register;
- (b) all land entered in the Provincial Land Tax Register is assessed on the basis provided in the legislation;
- (c) the computerized system and the supporting staff can adequately maintain the Provincial Land Tax Register on an ongoing basis and collect the taxes on the land listed therein.

On March 21, 1979 the Deputy Minister of Revenue replied as follows:

1) *Land Assessment Activity*

"For several years, the Ministry of Natural Resources performed the property assessment function for land situated in unorganized areas of the Province.

"When the land tax programme was transferred to the Ministry of Revenue in 1972, the Ministry of Natural Resources agreed to continue with the assessment function as it supplemented its land use control programmes and had the resources available in the north. However, as the assessment activity was

carried out on a part-time basis, it became apparent that all regions would not be fully assessed at current assessed values in a systematic manner over a predetermined time period.

"It was felt that the Assessment Division of the Ministry of Revenue should take over the assessment function under The Provincial Land Tax Act as it was already performing this activity for organized areas of the Province. After discussions took place for a considerable period of time between the Ministries, it was decided that the Ministry of Revenue would take responsibility for the assessment function."

"On April 1, 1978, our Assessment Division commenced its new responsibility. In that year it matched the properties in school board districts, listed on the assessment roll maintained by the Corporations Tax Branch and the assessment rolls maintained by the regional assessment offices. In addition, it raised assessments in some locations where new establishments and mobile home communities were created."

"For 1979, Assessment Division will be examining those properties not located in school districts to ensure that all properties are on its rolls."

"It is this Ministry's objective to have current assessment values on all properties subject to The Provincial Land Tax Act recorded as quickly as is economically feasible."

2) Annual Interest Charge

"The interest charges which were to be imposed on April 1, 1978 were posted to the accounts in December 1978 and were included in the January 1979 land tax billing. The delay was due to computer programme revision problems."

3) Land Sold or Leased by the Ministry of Natural Resources

"I have asked my officials to investigate those properties sold or leased by the Ministry of Natural Resources which are not, as you state, in the register."

4) Cautions

"With respect to properties eligible for cautioning, approximately 450 cautions were registered in 1978, while 190 were registered in 1977. Operating economics do not allow us to keep the eligible caution inventory to zero, but this does not result in a loss of revenue, only to a delay."

"It should be noted that of the 1,000 accounts mentioned in your report, about 20% cannot presently be cautioned because their is insufficient property description for registration at the registry offices. This problem will be removed with field examinations of properties not in school districts."

5) Written-off Accounts

"Some balances representing tax arrears on forfeited properties have been inadvertently written-off without authority of Order in Council. These write-offs will be reversed at the March 31, 1979 year end and submitted with Corporations Tax proposed write-offs in September 1979 for approval for write-off by Order in Council."

6) *Billing on a Consolidated Account Basis*

"It is our intention to drop the consolidated account service that we have provided in the past. The few corporations to which this service is provided cause a disproportionate amount of work because of continuous property transactions. Also, the problem mentioned by you will be eliminated when the consolidated billing is dropped."

Audit Services Branch

"I have forwarded a copy of your report to the Director, Audit Services Branch for his comments with respect to your recommendations."

74. Continuing Overdraft Position of Accountable Advance, Ministry of the Solicitor General. The maintenance of the Ministry's accountable advance bank account in a continual overdraft position had been reported in our two prior audit memoranda. Reference has also been made previously to the Ministry of Treasury and Economics Accounting Policy Statement number 402, dated September 1976, which states that accountable advance bank accounts may not be overdrawn at any time.

During the course of our current review, we noted that in July 1978, after acknowledging that there was a serious problem, the Ministry of Treasury and Economics approved an increase of \$200,000 to the Ministry's advance and recommended administrative actions as follows:

- that claims from Head Office and Ontario Provincial Police (OPP) district offices be submitted more frequently; ideally, Head Office claims on a daily basis and as a minimum once per week, and OPP district office claims on a weekly basis and as a minimum twice per month; and
- reduce the advances, totalling in excess of \$450,000, made to OPP district offices.

Despite the increase of \$200,000, received by the Ministry in August 1978, the bank account balances at the end of September and October were in overdraft positions of \$339,660 and \$234,488 respectively. We were advised that corrective action to remedy this situation had commenced.

On March 19, 1979 the Ministry commented as follows:

"The account remains in an overdraft position, contrary to the Ministry of Treasury and Economics accounting policy #402.1. In order to rectify this situation, an application was made to the Ministry of Treasury and Economics on February 18th, 1978, for additional funds. As a result the advance was increased by \$200,000. This increase was less than half the amount of the increase requested by the Ministry."

"Effective April 1st, 1979, procedures have been changed so that O.P.P. District Office claims will be made twice a month as recommended by staff of the Ministry of Treasury and Economics. Also, the revised procedures are designed to reduce the amount of advances to O.P.P. District Offices."

"It must be noted that the emergent nature of the services provided by the O.P.P. may require immediate funding. In such instances the accountable advance system best meets this requirement. Therefore, it is entirely possible that overdraft situations may occur and continue if adequate funding is not initially provided for the account.

"A continuing system for monitoring the accountable advance position is in operation and any further action will be based on the evaluation of this system."

75. Non-Recovery of Costs of Policing Municipalities, Ministry of the Solicitor General. In section 117 of our 1974-75 Report, comment was made that although several municipalities were paying for policing services provided by the Ontario Provincial Police under separate agreements with the Ministry, other towns and villages were receiving these services without charge.

In its December 1976 Report to the Legislature, the Standing Public Accounts Committee recommended that a method be developed to rationalize the costing of police services to ensure that costs are recovered.

On April 4, 1977 the Deputy Solicitor General fully outlined for us the arrangements made whereunder regional municipalities would either take over the policing function or assume the costs thereof. On February 27, 1978, however, he advised that the question of paying for policing services was part of an overall study being made of the police funding process in Ontario and that it was understood that a report would be submitted to Cabinet in the near future. At the conclusion of our current review in December 1978, however, the matter had not been resolved.

The Deputy Minister responded to our comments on March 19, 1979:

"As the Auditor's Report points out, the finance and organization of policing services in the Province of Ontario has been a subject of concern for quite some time. Numerous studies have been carried out and reports made but the issue remains, more or less, unchanged. As late as February 27th, 1979, the Cabinet Committee on Justice, at its Policy Meeting in Niagara-on-the-Lake, was made aware of the current situation and the question was raised as to 'user pay' for policing services throughout the province. The Cabinet Committee on Justice decided to add the item to its agenda for discussion at a later meeting. Accordingly, the matter is now in the hands of the Provincial Secretary for Justice."

76. Report of The (Federal) Royal Commission on Financial Management and Accountability. The Federal Royal Commission on Financial Management and Accountability, chaired by Mr. Allen Thomas Lambert, was established by Order in Council dated November 22, 1976, as revised and amended on December 24, 1976 and January 13, 1977.

As background, the reasons for the establishment of this Commission, as set out in the original Order in Council, were the unprecedented demands placed

on government by the growth in its responsibilities and programs; a desire to ensure the efficiency and probity in the public service of Canada; a serious concern about the adequacy of financial administration in government for establishing effective control over, and accountability for, public funds; and the need to achieve the effective use of resources, the avoidance of waste, and increased productivity in government.

Accordingly, the Commission was directed "to examine and report on the management system required in the inter-related areas of:

- (i) financial management and control,
- (ii) accountability of deputy ministers and heads of Crown agencies relative to the administration of their operations, and
- (iii) the evaluation of the administrative performance of deputy ministers and heads of Crown agencies,

and the interdepartmental structure, organization and process applicable thereto, including in particular:

- (a) the development, promulgation and application of financial management policy, regulations and guidelines by central agencies,
- (b) procedures to ensure that,
 - (1) necessary changes in policy, regulations and guidelines are identified, and
 - (2) policy regulations and guidelines are adhered to,
- (c) systems and procedures to ensure effective accountability to government and, where appropriate to Parliament, of the administration of government departments and agencies, and
- (d) the organization necessary in central agencies, government departments and Crown Agencies to achieve the foregoing."

The final report of the Commission, containing twenty-two chapters, was issued in March 1979. A summary of the recommendations contained therein, by chapter, has been reproduced as Exhibit 9 to this Report.

During the course of reviewing these recommendations, we found that many are already either fully or partially in place in Ontario. However, we believe that several other recommendations should be seriously studied with a view to their implementation in Ontario. In some cases, appropriate modification would be required due to the difference in organizational structure as between the federal and provincial levels of government.

In this regard, a memorandum, setting out our views as to the recommendations which should be considered for implementation in Ontario, was sent to the Secretary of Management Board of Cabinet on July 26, 1979.

In his reply to our memorandum, dated August 27, 1979, the Secretary stated, in part:

"My staff and I have reviewed the recommendations carefully, and we share

your view that some of them have relevance to the situation in Ontario. In these cases, we will propose appropriate action to the Government."

A copy of our memorandum was also provided to the Deputy Minister of Treasury and Economics who, on September 18, 1979 advised us, in part, as follows:

"We shall continue our efforts in the areas you mentioned and on which I have commented."

77. Expenditure of Royal Commissions. Royal Commissions are defined in the Ontario Manual of Administration as investigatory bodies appointed by Order in Council under the power of The Public Inquiries Act. During the year ended March 31, 1979 expenditure was incurred in respect of 13 Royal Commissions. Expenditure detail, which is reflected in Volume 3 of the 1978-79 Public Accounts for all of these Commissions, may be summarized as follows:

<i>Subject Matter</i>	<i>Date Established</i>	<i>Status at March 31, 1979</i>	<i>Expenditure 1978-79 \$</i>	<i>Cumulative Expenditure to March 31, 1979 \$</i>
Toronto Jail and Custodial Services	Oct 9/74	Completed	74,765	932,444
Electric Power Planning	July 17/75	In Process	1,085,844	4,278,390
Violence in the Communications Industry	May 7/75	Completed	16,342	2,239,668
Algoma University College	Mar 10/76	Completed	10,280	245,330
Freedom of Information and Individual Privacy	Mar 30/77	In Process	648,980	978,221
Aluminum Wiring	Apr 6/77	Completed	205,492	469,099
Status of Pensions	Apr 20/77	In Process	444,090	610,377
Waste Management Inc.	May 15/77	Completed	55,560	201,247
Northern Environment	July 13/77	In Process	1,087,532	2,563,888
Hamilton-Wentworth	Sept 14/77	Completed	56,695	394,492
Waterloo Region	Sept 14/77	Completed	287,796	367,000
Confidentiality of Health Records	Dec 21/77	In Process	726,501	800,628
Discounting and Allowances in the Food Industry in Ontario ...	Aug 23/78	In Process	126,444	126,444
			<u>4,826,321</u>	<u>14,207,228</u>

78. Expenditure of Select Committees. Select Committees are appointed by order of the House to consider matters upon which the House desires information and assistance. During the year ended March 31, 1979 expenditure was incurred in respect of 5 Select Committees. Expenditure detail is reflected in Volume 3 (Office of the Assembly) of the 1978-79 Public Accounts, and may be summarized as follows:

<i>Subject Matter</i>	<i>Date Ordered</i>	<i>Status at March 31, 1979</i>	<i>Expen- diture 1978-79 \$</i>	<i>Cumulative Expenditure to March 31, 1979 \$</i>
The Corporations Act of the Province of Ontario and Related Acts and Regulations	June 22/65	In Process	248,130	1,828,161
Report of the Ombudsman	July 15/76	In Process	117,945	279,661
Inco and Falconbridge Layoffs	Nov 10/77	Completed	68	118,232
Ontario Hydro Affairs	Nov 24/77	In Process	521,371	604,418
Health Care	June 19/78	In Process	88,902	88,902
			<u>976,416</u>	<u>2,919,374</u>

79. Write Off of Uncollectable Accounts. Section 14 of The Financial Administration Act reads as follows:

"14.—(1) Where a person has an obligation or debt due to the Crown or the Crown has a claim against a person, the Treasurer may, subject to any other Act affecting such obligation, debt or claim, negotiate and accept a settlement in payment and satisfaction of such obligation, debt or claim, or may determine that any such obligation, debt or claim is uncollectable.

(2) The Lieutenant Governor in Council, on the recommendation of the Treasurer, may, if he considers it in the public interest, delete from the accounts any loss incurred in any settlement or determination made under subsection 1 . . .

(3) The losses deleted from the accounts during any fiscal year shall be reported in the Public Accounts for that year . . ."

During the 1978-79 fiscal year 10 Orders in Council were passed authorizing the deletion of losses from the accounts. Deleted losses totalled \$17,454,136 and are summarized by Ministry on page 82 of Volume 1 of the Public Accounts. The following additional comment is provided for some of the larger write-offs.

The Ministry of Health wrote off \$7,069,000 with respect to 1,651 uncollectable account balances, for Homes for Special Care residents, that had accumulated during the period 1964 to 1976. These accounts represented expenditures made, pursuant to The Homes for Special Care Act, on behalf of the residents for per diem rates paid to home operators and for apparel, comforts and drugs. The balances remained uncollectable for reasons such as: children under 18 years of age not having any assets with the Public Trustee; indigent adults qualifying for allowances under The Family Benefits Act at its inception on April 1, 1967, but with the charges being incurred prior to that date; deceased residents aged 65 or over whose estates were insufficient to settle the total indebtedness.

Over 1,000 uncollectable accounts of the Motor Vehicle Accident Claims Fund amounting to \$4,025,372 were written off by the Ministry of Consumer and Commercial Relations. While most of the accounts had balances of less than

\$5,000, the three largest write-offs had balances in excess of \$50,000 and involved situations where the debtor died as a result of the accident, giving rise to a claim/judgment against the Fund. The major portion of the total write-offs pertained to claims/judgments, at least 20 years old, on which no payments had been made for at least 7 years.

The Ministry of Revenue wrote off \$2,591,142 with respect to various unpaid taxes and GAINS overpayments. The major write-offs were as follows:

The Retail Sales Tax Act	\$960,353
The Corporations Tax Act	586,671
The Ontario Guaranteed Annual Income Act, 1974 (GAINS)	524,050

80. Board of Internal Economy. Section 85 of The Legislative Assembly Act, as amended, reads: "The Board of Internal Economy may authorize the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same vote and the Provincial Auditor shall make special mention in his report of any transfer under this section". In respect of the 1978-79 Expenditure Estimates, the following transfer was made within Vote 201:

\$350,000 from Item 13 — Constituency Offices to
Item 5 — Sessional Requirements.

81. Management Board Orders. Section 5 of The Management Board of Cabinet Act, 1971 provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper.

Fifty Management Board Orders were issued in respect of the 1978-79 fiscal year. In total, expenditure of \$64,771,438 was so authorized, representing a significant decrease from the expenditure of \$173,871,550 authorized by eighty-five Management Board Orders in the 1977-78 fiscal year. The amounts authorized by Management Board Orders averaged approximately \$1,300,000 and ranged from \$2,600 to \$20,675,000. A listing of Management Board Orders, showing the amounts authorized and expended thereunder, is included as Exhibit 2 to this Report. A total of 196 items were included in the Management Board Orders and are detailed in the Exhibit.

By way of additional information, the Management Board Orders with respect to the 1978-79 fiscal year are summarized as follows by month of issue:

<i>Month of Issue</i>	<i>Number</i>	<i>Authorized</i>	<i>%</i>
October 1978	1	\$ 159,400	.25
November 1978	1	245,000	.38
January 1979	2	806,000	1.24
February 1979	4	1,122,600	1.73
March 1979	19	25,905,150	39.99
April 1979	22	36,452,288	56.28
September 1979	1	81,000	.13
	<u>50</u>	<u>\$64,771,438</u>	<u>100.00</u>

During our examination of the Public Accounts for the year ended March 31, 1979 we noted that, in the Ministry of Culture and Recreation Vote 2904-3, Citizenship and Multicultural Support Program, Translation Services Activity, actual expenditure of \$345,529 exceeded the voted appropriation estimate of \$264,600 by \$80,929. Provision for the necessary additional funds in this appropriation required authorization by Management Board Order. This requirement, we understand, was inadvertently overlooked until August 1979. Subsequently, an appropriate request was made and resulted in the issue of a Management Board Order dated September 10, 1979.

On December 14, 1978 the Legislative Assembly approved Standing Order number 51 which reads, in part, "Management Board Orders shall be printed in The Ontario Gazette, with an explanation of significant variances from printed Estimates". Accordingly, Management Board Orders numbered one to forty-nine were printed in the May 5 and May 19 editions of The Ontario Gazette. It is expected that the final Management Board Order will be so printed in October.

82. Special Warrants. Section 4 of The Management Board of Cabinet Act, 1971 provides for the issue of a Special Warrant, when the Legislature is not in session, authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

No Special Warrants were issued during the year ended March 31, 1979.

COMMENTS ON CROWN AGENCY OPERATIONS

83. Introductory Comments. The term Crown Agency for purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations, as defined in The Audit Act, 1977.

An agency of the Crown was defined in section 1(a) of the Act, prior to an amendment effective April 1, 1979, as being "an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (i) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (ii) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,
- (iii) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or
- (iv) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor under any other Act,

but does not include one that is not affected by The Crown Agency Act."

Regarding such agencies, section 9(2) of the Act provides that in instances where an agency is audited by someone other than the Provincial Auditor (those in categories iii and iv), the audit is to be performed under the direction of the Provincial Auditor, and such other auditor is required to report to the Provincial Auditor.

A Crown controlled corporation is defined in section 1(e) of the Act as "a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council."

In the case of these corporations, section 9(3) of the Act provides that in instances where such a corporation is audited by someone other than the Provincial Auditor, such other auditor or auditors are required, upon completion of the audit, to deliver to the Provincial Auditor a copy of the audited financial statements together with a copy of the report of their findings and recommendations to management (i.e. management letter). Additionally, the Provincial Auditor has access, if required, to the working papers and other documents related to the audit of such corporations.

A listing of agency of the Crown and Crown controlled corporation audits, by category, for the year ended March 31, 1979 is included as Exhibit 6 to this Report.

In addition to the Crown controlled corporations included in Exhibit 6, there

exist certain other corporations whose enacting legislation does not contain any audit provision. In the case of such corporations, their revenue is not retained, but is deposited directly into the Consolidated Revenue Fund of the Province. Expenditures of these corporations are paid by Ministries out of moneys appropriated therefor by the legislature. As a result, these corporations have no assets or liabilities for accounting purposes. Examples of such corporations are the Liquor Licence Board and the Niagara Escarpment Commission. Although no financial statements are required for such corporations, it is our current practice to audit their transactions as part of our Ministry audit process.

84. The Audit Amendment Act, 1979. As a result of correspondence from one of several bodies that was deemed to be an agency of the Crown pursuant to clause (iii) of section 1(a) of the Act, followed by the receipt of a requested legal opinion related thereto from the Ministry of the Attorney General, it was considered necessary to introduce an amendment to The Audit Act, 1977. The purpose of this amendment was to clarify the existing intent as to what bodies were to be included as agencies of the Crown, pursuant to the Act.

Accordingly, The Audit Amendment Act, 1979, which received Royal Assent on June 14, 1979, came into force on April 1, 1979. This Act deleted the last clause of section 1(a), which originally stated "but does not include one that is not affected by The Crown Agency Act", and replaced it with "but does not include one that The Crown Agency Act states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of The Crown Agency Act".

As a result of this amendment, the Clarke Institute of Psychiatry, The Ontario Cancer Institute, Ontario Mental Health Foundation and the Board of the Community Psychiatric Hospital, Guelph, currently included as Crown controlled corporations in Exhibit 6 to this Report, will be classified as agencies of the Crown for the fiscal year ending March 31, 1980. Additionally, the St. Clair Parkway Commission and the Teachers' Superannuation Commission, which are currently not included in Exhibit 6, will also be classified as agencies of the Crown for the fiscal year ending March 31, 1980. Since all these agencies are audited by auditors appointed by the Lieutenant Governor in Council, the audits thereof will now be performed under the direction of the Provincial Auditor, pursuant to section 9(2) of The Audit Act, 1977, as amended.

85. Inactive Crown Agencies. As indicated in our 1977-78 Report (section 88), one of the then three inactive agencies, The Ontario Telephone Development Corporation, was reactivated in June 1978, in order to effect the acquisition and sale of an independent telephone company which was in serious financial difficulty.

On May 3, 1979, Royal Assent was given to The Sheridan Park Corporation Repeal Act, 1979, under which The Sheridan Park Corporation Act was repealed.

Therefore, the only agency remaining inactive at the date of this Report is the Ontario Deposit Insurance Corporation. In a letter dated August 8, 1979 the Minister of Consumer and Commercial Relations advised:

"The status of the Ontario Deposit Insurance Corporation . . . has not changed in the past two years. The corporation remains inactive.

"There is still the possibility that O.D.I.C. may be called upon to protect depositors with financial institutions. Accordingly, any decision with regard to the future of O.D.I.C. is being deferred to a later date."

86. Method of Audit Reporting. A report was prepared on each agency of the Crown audit performed or directed by our Office during the year, and was submitted to the agency involved and to the responsible Minister. Observations and comments were made on matters noted during the audits. Included in the reports were recommendations for improvement in internal controls and in the general efficiency of the accounting process. Additionally, in the case of Crown controlled corporations which are audited by other auditors, such auditors are now required to send this Office a copy of their management letters upon completion of their audits.

Matters raised in the foregoing reports and letters which, in our judgment, are of interest or significance to the Legislative Assembly are included in subsequent sections of this Report. Not all of the subsequent comment is of a critical nature; certain of our comments are for informative purposes only. Generally speaking, the caption of the section will indicate whether the content is critical or informative.

In cases where replies have been received to the audit findings and recommendations contained in subsequent sections, relevant portions thereof have been included for informative purposes, generally without further comment by this Office.

87. Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports. It is our practice to follow up on the status of suggested corrective action and recommendations during the next audit of each Crown Agency. The status of corrective action and recommendations contained in our 1977-78 Report is indicated in Exhibit 7 to this Report. Exhibit 7 also provides an update on the status of corrective action and recommendations considered unresolved per Exhibit 8 of our 1977-78 Report.

88. Review of Crop Insurance Program, The Crop Insurance Commission of Ontario. The Crop Insurance Commission of Ontario was established in 1966 pursuant to The Crop Insurance Act (Ontario). The functions and powers of the Commission, as outlined in section 4 of the Act, include the administration of plans of crop insurance as established by regulations made under the Act, as well as the evaluation of losses and payment of claims. The Commission's audited financial statements for the year ended March 31, 1979 are reproduced in Volume 2 of the 1978-79 Public Accounts.

During the year, we completed a detailed review of the Crop Insurance Program. The following is a summary of the significant observations and recommendations contained in a memorandum sent to the Commission on June 14, 1979:

- At present Canada contributes a 50 per cent premium subsidy. In addition, the administrative expenses of the Program are paid by Ontario and not absorbed by the Commission. Nevertheless, the Commission had a recorded deficit of \$13,970,783 at March 31, 1978;
- Our review of the premiums per \$100 coverage for the previous four years indicated that sharper increases in the rates for corn, spring grain and green peas might have been appropriate;
- We were informed that the Commission's goal is to reduce the deficit as quickly as possible and that it should be eliminated in three to five years' time. To achieve this objective would require not only a sharp increase in premium rates, but also the absence of significant crop losses throughout the period;
- We were of the opinion that there existed sufficient leeway for premium increases, in view of:
 - a) The significant subsidization by Canada and Ontario with respect to premiums and administrative expenses.
 - b) The average premium cost in comparison to other provinces. Based on the most recently available statistics, Ontario had the lowest average premium per \$100 coverage of all provinces for the 1975 and 1976 crop years and the second lowest for 1974.
- We recommended that the Commission's strategic long term plans include the revision of coverages and rates so that the prevailing net deficit position of the reserve fund will be eliminated and a surplus established. A modest objective for the reserve fund surplus might be in the neighbourhood of 150 per cent of the annual premium total;
- In connection with advances from the Treasurer of Ontario, amounting to \$10,115,786 at March 31, 1979, we stressed that, until such advances are substantially reduced, significant interest expense will be incurred, thus seriously slowing the process of reducing the Commission's deficit;
- In light of the growth in total coverage (risk) from \$6.7 million in 1969 (when Ontario withdrew from the reinsurance agreement) to the 1978 crop year risk of over \$275 million, we recommended that the Commission examine the advantages and disadvantages of re-entering into the reinsurance agreement with Canada;
- With regard to the \$1.8 million loss on hay and pasture in Northern Ontario for the 1977 crop year, during April 1977, a decision was made to extend the date for filing applications from Northern Ontario from May 15 to May 31. Assumedly because of the continuing dry weather in Northern Ontario, many farmers then applied for insurance after the extension was granted. Based on appropriate sampling techniques, it was our conclusion that at least \$1.1 million of this loss was directly attributable to such delayed applications. We were of the opinion that the reasons for the extension should have been documented in the Commission's minutes;

- We recommended that the Commission keep statistics on measurement checks of acreage so that the number of checks by adjuster is known, and so that any tendency towards incorrect reporting of acreage may be recognized and corrective action taken;
- We recommended that large and recurring claims be monitored closely and that the circumstances of their occurrence be specially documented and supported by acreage measurements where appropriate;
- We recommended that the objective of the Crop Insurance Program be expanded upon, since, in our opinion, it is presently not set out in sufficient detail to facilitate the measurement process intended for the Management by Results (MBR) system;
- The MBR reports for March 31, 1977 and March 31, 1978 did not contain any type of comparison of actual results to planned results. The "planned results" listed in the reports for future years simply appeared to be forecasts, bearing no relationship to efficiency. With regard thereto, we recommended that an attempt be made to develop efficiency targets against which the actual results may be compared.

Portions of the memorandum in which the preceding observations and recommendations appeared are set out in detail, under appropriate headings, in the paragraphs that follow.

Background to Establishment of the Crop Insurance Program

Prior to establishment of the Commission, meetings were held between staff of the Ministry of Agriculture and Food and the farm community in response to two disastrously dry years, 1965 and 1966. As a result, the Ontario crop insurance program was set up so that farmers could protect themselves against natural perils.

The crop insurance plans were to be developed "on request" and participation in the plans was intended to be voluntary. Therefore, the basic objective is to provide farmers with a voluntary insurance program by offering protection against weather and other uncontrollable hazards for all major crops grown in Ontario. The program is intended to relieve the government of the obligation to assist farmers through difficult periods resulting from crop losses.

Financing of the Program

The Crop Insurance Act authorizes the Minister of Agriculture and Food to enter into an agreement with the Government of Canada to provide for the payment by Canada to the Province of Ontario of contributions in respect of costs incurred by the Province in the operation of the insurance plans. Under the current agreement, the Province pays the administrative expenses of the Commission through the Ministry of Agriculture and Food, out of moneys appropriated therefor by the Legislature. The Province also initially pays, out of statutory appropriations, premium subsidies to the Commission of 50 per cent of the total premiums payable by the insured persons. These premium subsidies are then recovered by the Province from the Government of Canada.

If at any time there are insufficient funds to pay claims under the insurance plans, the Lieutenant Governor in Council may authorize the Treasurer of Ontario

to advance funds to the Commission on such terms and conditions as the Lieutenant Governor in Council may direct.

Summary of Financial Transactions

The present arrangements whereby Canada pays a 50 per cent premium subsidy and Ontario pays the administrative expenses commenced with the 1973 crop year. Prior to then, both Canada and Ontario contributed to the premium subsidy and to the administrative expenses. Until the 1972 crop year, the farmer paid 70 per cent of the premium. Thereafter, the farmer has paid 50 per cent of his insurance premium.

From the inception of the program in 1966 until March 31, 1978 the contributions towards premiums and administrative expenses are summarized as follows:

Premiums	— Farmers	\$26,210,369	
	— Canada	24,762,652	
	— Ontario	518,786	\$51,491,807
Administrative Expenses	— Canada	\$ 1,364,448	
	— Ontario	8,246,661	9,611,109
			<u>\$61,102,916</u>

As at March 31, 1978 however, the Commission had a recorded deficit of \$13,970,783 made up of:

Claims incurred	\$65,919,464
Premiums earned	51,491,807
Net loss on claims	14,427,657
Net interest and other gains	456,874
	<u>\$13,970,783</u>

As can be seen, the above deficit is exclusive of administrative expenses which, as stated previously, have been absorbed by Canada and Ontario.

Net Loss on Crop Insurance Plans (\$14,427,657)

The terms of the agreement with Canada provide that the coverage and rates for the crop insurance plans should be such as to keep the insurance scheme self-sustaining. In this connection, the General Manager of the Commission informed us that the goal is to have each plan self-sustaining in the long term.

The cumulative losses and gains to March 31, 1978 were summarized in the following table according to their current coverage.

	<i>Plans With Coverage \$2 Million and Over</i>	<i>Plans With Coverage Under \$2 Million</i>	<i>Total</i>
Active Plans			
Cumulative Losses			
No. of plans	7	13	20
Losses (\$)	19,745,481	2,074,741	21,820,222
Cumulative Gains			
No. of plans	6	4	10
Gains (\$)	7,726,665	62,533	7,789,198
	<u>12,018,816</u>	<u>2,012,208</u>	<u>14,031,024</u>
Discontinued Plans—cumulative losses			396,633
Net loss on plans			<u>14,427,657</u>

The crop plans with significant cumulative losses as at March 31, 1978 are listed and commented on:

	<i>No. of Years Plan Offered</i>	<i>Cumulative Loss \$</i>	<i>Ratio of Claims to Premiums</i>
White Beans	10	7,932,651	2.83 to 1.00
Corn	10	4,465,865	1.32 to 1.00
Spring Grain	11	2,893,793	1.68 to 1.00
Hay and Pasture	1	2,563,064	4.74 to 1.00
		<u>17,855,373</u>	

The white bean crop was hurt severely by wet weather in 1977 and claims totalled \$9,451,243 or 65 per cent of coverage, resulting in a loss for the year of \$8,358,578.

The loss position for the corn plan resulted mainly from adverse weather conditions in the 1972 and 1974 crop years when losses of \$911,998 and \$4,656,408, respectively, were recorded.

Losses on the spring grain plan have been incurred in each of the last six years and are listed below along with premiums per \$100 coverage and cumulative ratios of claims to premiums.

<i>Crop Year</i>	<i>Loss \$</i>	<i>Premium per \$100 Coverage \$</i>	<i>Cumulative Ratio of Claims to Premiums</i>
1967 to 1971 inclusive	89,227	8.17	1.23 to 1.00
1972	109,217	9.09	1.37 to 1.00
1973	332,858	9.48	1.72 to 1.00
1974	559,928	10.83	1.86 to 1.00
1975	552,960	12.02	1.71 to 1.00
1976	933,531	11.88	1.78 to 1.00
1977	316,072	12.31	1.68 to 1.00
	<u>2,893,793</u>		

For the 1978 crop year, the premium per \$100 coverage was increased to \$13.72 and the results as recorded to February 12, 1979 show a gain for the year of \$225,685.

The hay and pasture plan, introduced in 1977, was included in the agreement with Canada on a one year experimental basis with an extension of one year in 1978. The heavy losses in 1977 were caused by dry weather. Results for the second year of the plan as recorded to February 12, 1979 showed a small gain of \$4,498. Further comments relative to this plan are included elsewhere in this section.

Elimination of Deficit

As indicated previously, in the long term it is intended that the coverages and rates be such that each plan is self-sustaining and all claims can be paid out of premium revenue. We noted that the Commission continues to actively review the premium and coverage structure for each crop in support of this principle. Accordingly, the Commission increased premium rates appreciably in 1978 for most of the crop plans in loss positions. However, our review of the premiums per \$100

coverage for the previous four years indicated that sharper increases in the rates for corn, spring grain and green peas might have been appropriate.

We were informed that the Commission's goal is to reduce the deficit as quickly as possible and that it should be eliminated in three to five years' time. In the light of past experience, we considered this an extremely optimistic forecast. To achieve this objective would require not only a sharp increase in premium rates, but also the absence of significant crop losses throughout the period.

In this regard, we were of the opinion that there existed sufficient leeway for premium increases, in view of:

- a) The significant subsidization by Canada and Ontario with respect to premiums and administrative expenses.
- b) The average premium cost in comparison to other provinces. Based on the most recently available statistics, Ontario had the lowest average premium per \$100 coverage of all provinces for the 1975 and 1976 crop years and the second lowest for 1974.

The agreement with Canada not only provides for the revision of coverages and rates in such manner as will keep the insurance scheme self-sustaining, but also covenants the Province to establish a reserve fund for the payment of indemnities. We therefore recommended that the Commission's strategic long term plans include the revision of coverages and rates so that the prevailing net deficit position of the reserve fund will be eliminated and a surplus established. A modest objective for the reserve fund surplus might be in the neighbourhood of 150 per cent of the annual premium total.

Interest Income and Expense

Interest income and expense to March 31, 1979 was summarized as follows:

	<i>Interest Income</i> \$	<i>Interest Expense</i> \$	<i>Excess of Income over Expense</i> \$
From inception of Commission to March 31, 1977	687,758	210,604	477,154
Fiscal year 1977-78	182,301	313,146	(130,845)
	870,059	523,750	346,309
Fiscal year 1978-79	26,280	776,782	(750,502)
Totals as at March 31, 1979	896,339	1,300,532	(404,193)

Interest income is derived mainly from term deposits, while expense is incurred on advances from the Treasurer of Ontario. Typically, advances may be at a maximum amount in January after most of the year's claims have been paid. The advances are usually reduced as premium income for the coming crop year is received until the payment of claims cycle commences again. Funds on hand for the ongoing settlement of claims are invested in term deposits, usually for periods of less than seven days.

As a result of the significant losses in 1977, the advances from the Treasurer of Ontario reached all-time highs in January 1978 and January 1979 as indicated in the following table:

	\$
March 31, 1977	1,800,000
July 31, 1977	Nil
January 31, 1978	12,000,000
March 31, 1978	10,200,000
July 31, 1978	3,000,000
January 31, 1979	12,500,000
March 31, 1979	10,115,786

We stressed that, until these advances are substantially reduced, significant interest expense will be incurred, thus seriously slowing the process of reducing the Commission's deficit.

Reinsurance with Canada

Canada is permitted by its legislation to enter into reinsurance agreements with any province and has established a crop reinsurance fund for this purpose. In this connection, The Crop Insurance Act (Ontario) empowers the Commission to reinsure with any other insurer the risk or any portion thereof under its contracts of insurance for any plan.

An amendment in 1967 to the agreement between Canada and Ontario added provisions applicable to the reinsurance by Canada of a portion of Ontario's liability for the payment of indemnities under the insurance scheme. However, these provisions were rescinded in 1969 upon the Commission's request. Up to the date of rescision, Ontario had paid reinsurance premiums to Canada amounting to \$22,277 and had presented claims totalling \$13,664.

In light of the growth in total coverage (risk) from \$6.7 million in 1969 (when Ontario withdrew from the reinsurance agreement) to the 1978 crop year risk of over \$275 million, we recommended that the Commission examine the advantages and disadvantages of re-entering into the reinsurance agreement with Canada. In further support of this recommendation, we noted that two crops, flue-cured tobacco and corn, represented over 60 per cent of the risk assumed in the 1978 crop year, total coverage for the two crops being almost \$167 million. A "disaster" in either of these crops could have an effect on the Commission's finances even more serious than the white bean loss in the 1977 crop year.

Loss on Hay and Pasture, 1977 Crop Plan (\$2,563,064)

The hay and pasture plan was introduced in 1977 to provide insurance against losses in hay or pasture resulting from drought conditions.

Ontario Regulation 600/77 provides that applications for insurance for areas in Northern Ontario shall be filed with the Commission not later than May 15 in the crop year or such other date as may be determined from time to time by the Commission. We were informed that the plan initially was announced and publicized early in March 1977, but that during April a decision was made to extend the date for filing applications from Northern Ontario to May 31. We noted that no similar extension was granted for applications from Southern Ontario. There was no record of this extension in the Commission's minutes, although we understood that it is customary for such changes to be recorded.

Assumedly because of the continuing dry weather in Northern Ontario, many

farmers then applied for insurance after the extension was granted. Based on appropriate sampling techniques, it was our conclusion that at least \$1.1 million of the loss summarized below was directly attributable to such delayed applications.

Claims and premiums for the 1977 crop year were summarized as follows:

	<i>Northern Ontario</i>		<i>Southern Ontario</i>		<i>Total</i>	
	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>	<i>No.</i>	<i>\$</i>
Claims \$10,000+	58	826,350	6	90,096	64	916,446
Claims under \$10,000	343	1,510,144	678	822,087	1,021	2,332,231
Total claims	401	2,336,494	684	912,183	1,085	3,248,677
Premiums (all contracts) ..	431	513,473	857	172,140	1,288	685,613
Loss for 1977		<u>1,823,021</u>		<u>740,043</u>		<u>2,563,064</u>

In light of the substantial losses which resulted from applications filed after May 15 in the 1977 crop year, we were of the opinion that the reasons for the extension should have been documented in the Commission's minutes. We noted that the May 15 deadline for applications was re-instituted for the 1978 and 1979 crop years.

Verification of Acreage as Reported by Farmers

Correct reporting of acreage is important to the Commission and the insured farmers in the case of field crops because:

1. Acreage determines the amount of premium;
2. It is a basis for claim determination; and
3. It affects the coverage for future years.

Overstatements of acreage may result in significant increases in claim payments. Undeclared acreage may permit the grower to claim on the least productive part of his total acreage or lead to other irregularities.

The Commission encourages the accurate measurement of fields by the insured farmers and carries out a program of measurement checks directed towards the most likely sources of inaccurate reporting. Particular attention is directed to eased land, large acreages, new insureds and significant acreage changes. The adjusters and field staff doing the acreage checks are retired farmers and others who are familiar with the farming community and therefore able to assess the reasonableness of reported acreages. The occasions of acreage checks are also used by the adjusters to review the farmers' management practices and other aspects of the operations which may be contributing to claim history.

Acreage measurement reports are placed on adjusters' files at the Commission's offices and are not summarized. Accordingly, we recommended that the Commission keep statistics on measurement checks of acreage so that the number of checks by adjuster is known, and so that any tendency towards incorrect reporting of acreage may be recognized and corrective action taken. The Commission may also wish to amend the forms on which acreage is reported so as to reflect more emphatically the responsibility of the insured farmer to provide accurate data.

Survey of Large and Recurring Claims

Claims paid in respect of the 1977 crop year totalled \$23,928,137 and were summarized as follows:

	Claims		Amount	
	No.	%	\$	%
Over \$25,000	84	1.0	2,992,592	12.5
\$10,000 to \$25,000	447	5.2	6,472,597	27.1
Under \$10,000	8,064	93.8	14,462,948	60.4
	<u>8,595</u>	<u>100.0</u>	<u>23,928,137</u>	<u>100.0</u>

Individual claims ranged as high as \$91,354 and \$88,953 for apples in Norfolk County while a third grower in Niagara North had claims of \$66,345 (sweet cherries) and \$26,049 (pears) in 1977. The latter grower, who was first insured in 1977, also had claims totalling \$48,338 in 1978 or a total of \$140,732 in the two year period. A fourth grower in Simcoe County claimed \$55,260 and \$59,839 for potatoes in 1977 and 1978 respectively and had not been insured previously. We noted that 10 farmers, including the four claimants just mentioned, received \$1,039,649 in 1978 and prior years. In reviewing the approval process for large and recurring claims, we noted that acreage measurement reports were not on file for four growers of field crops included in the selection of 10 farmers.

We recommended that large and recurring claims be monitored closely and that the circumstances of their occurrence be specially documented and supported by acreage measurements where appropriate.

Objectives of Crop Insurance Program/Management by Results

As referred to previously, the objective of the Crop Insurance program, as covered in the Ministry's 1978-79 Management by Results (MBR) book, is "to provide farmers with a voluntary insurance program by offering protection against weather and other uncontrollable hazards for all major crops grown in Ontario".

In our opinion, this objective is not set out in sufficient detail to facilitate the measurement process intended for the MBR system. We therefore recommended that this objective be expanded upon so as to include at least the following additional factors:

1. To revise coverage and rates, in such manner as will keep the insurance scheme self-sustaining, as stipulated in the current agreement with the Government of Canada. (A specific time frame should be developed for the achievement of this objective.)
2. To forestall the need for the Government to provide disaster assistance due to poor coverage, by promoting a vigorous sales program with targets for each crop, in each area of the Province.

During the course of our review, the General Manager of the Commission informed us that the Commission intended to develop specific objectives for each crop plan in each area of the Province and that an effort would be made to define sub-objectives as well as suitable measurement criteria where practical. We suggested that an example of a measurement criterion would be the number of acres insured as a percentage of total acres planted in Ontario, according to crop. For

several crops, we noted that only a relatively low percentage of the total acreage had been insured and that the percentage varies significantly by county.

At some future date, following the adoption of the foregoing, the Commission would then be in a position to initiate a review of the crop insurance program's effectiveness.

The MBR Reports for March 31, 1977 and March 31, 1978 did not contain any type of comparison of actual results to planned results. The "planned results" listed in the reports for future years simply appeared to be forecasts, bearing no relationship to efficiency. With regard thereto, we recommended that an attempt be made to develop efficiency targets against which the actual results may be compared. Examples of areas for which, in our opinion, targets can be developed are:

1. Number of acreage and other verification checks required to maintain a reasonable degree of accuracy in the reporting procedures.
2. Administrative expenses as a cost per insured farmer.

The following comments were received from the General Manager of the Commission on June 22, 1979:

"In response to your letter of June 14th, 1979, following are my comments on some of the observations/recommendations relating to the review of the Crop Insurance Program:

- reducing the deficit . . . ; it goes without saying that (the chances that) the deficit can only be eliminated in three to five years are relatively benign.*
- comparing average total premiums to other provinces is hardly relevant since a very large portion of our liability (about 40%) is in tobacco. The premium rate in tobacco is the lowest of any of our crop plans and have still built up a fairly large surplus.*
- Reinsurance — the Commission is presently looking into the possibility of entering into a reinsurance agreement with Ottawa.*
- Crop Insurance Objectives — staff members are presently working on detailed long term objectives for presentation to the Commission."*

The following additional comments were transmitted by the General Manager of the Commission on September 21, 1979:

"Premium Increases

Over the past years premium rates have been increased significantly as the attached table indicates. A good example is the increase in the white bean rate of 42.6% following the heavy claim payments of 1977. The Commission, however, must be careful not to increase the rate to the point that a large portion of the farmers drop out of the plans. This would then be self-defeating.

"Reserve Fund

The long term objective of the Commission is to build up a relatively

large reserve fund. The problem in achieving this is many fold. On a number of crops (spring grain, corn, flax, etc.) original yield statistics were poor, resulting in over-coverage, eastern Ontario had three successive wet years, the white bean crop failed in 1977 and now in 1979 blue mold has seriously affected the tobacco crop. The latter two disasters were without precedent.

Premium reserves in some crops like tobacco should be between 30 and 50% of the total liability. The reason being that this crop is concentrated in one area and has no salvage value if not saleable for the original purpose grown. Other crops do not require as large a reserve.

"Statistics on Measurement Checks

Compiling statistics on measurement checks are not all that useful. We have checked one third of the total insured tobacco acreage this year and found few insureds that understated their acreage. Any overstatement of acreage is to the Commission's advantage since the yield to count is taken from the total planted acres not from the low yielding acres as implied in the report.

"Monitoring of Large and Recurring Claims

Large and recurring claims are monitored by the Commission. The implication is that an acreage measurement is the best method of insuring that a claim is proper. The insured farmers' management practices are the Commission's biggest concern. If in the opinion of the Commission losses do not result from an insured peril the claim is denied. Each of the last few years ten to twelve denials have resulted in arbitration hearings.

"Developing Efficiency Targets in the MBR

The sales staff does regularly budget sales by crop plan. These budgets are prepared by agency, area manager and then by province. The problem is that they are not shown on the MBR.

The Commission also intends to establish coverage objectives for each crop by area. It seems evident, however, that both the benefits and the availability of the plans are well known. Where the risk is perceived to be high on a given crop or a given area, up to 100% of the potential farmers are buying."

Regarding the preceding reply, the following comments are made for purposes of clarification:

Statistics on Measurement Checks

The correct declaration of acreage is a requirement of the legislation (regulations) and the contracts of insurance between the Commission and the growers. As mentioned in our memorandum, the Commission carries out a program of acreage measurement checks. In our opinion, it is reasonable that a statistical record of such checks should be maintained for the reasons stated in our memorandum.

An overstatement of acreage in the case of field crops may work to the advantage of the Commission, insofar as future years' liabilities are concerned, since

the average yield on which future coverage is based, will decrease. However, for the current crop year, an overstatement of acreage, while requiring a larger premium, increases the liability and therefore the amount of any claim based on the overstated acreage. Hence, in our opinion, such an overstatement is not to the Commission's advantage.

Our reference to low yielding (least productive) acreage was in regard to understatements of acreage, not to overstatements, as indicated by the Commission's comments.

Monitoring of Large and Recurring Claims

It was not our intention to imply that an acreage measurement is necessarily the "best" method of insuring that a claim is proper. Our memorandum had previously noted that the Commission, in verifying acreages, directs particular attention to large acreages and new insureds, and used the occasions of acreage checks to review farmers' management practices. Consequently, we considered it appropriate to note that acreage measurements were not on file for four large claims reviewed by us.

39. Comments on Funding of Independent Community-Based Clinical Delivery Systems, Legal Aid Fund. As at March 31, 1979 the Fund was in an overdraft position of \$81,685. For the 1978-79 fiscal year, receipts and disbursements totalled \$33,682,481 and \$33,839,793 respectively. The former figure included \$27,216,700 appropriated by the Legislature for payment into the Fund. The Fund is administered by The Law Society of Upper Canada.

Pursuant to amending Regulation 160/76 dated February 19, 1976, moneys are provided from the Legal Aid Fund for independent community-based clinical delivery systems (commonly known as legal-aid clinics), defined as any method or the delivery of legal or para-legal services to the public other than by way of fee for service, and including preventive law programmes and educational and training programmes calculated to reduce the cost of delivering legal services.

From the commencement of the program in the 1975-76 fiscal year to the fiscal year ended 1978-79, approximately \$5 million has been distributed to various clinics. The plan funded thirteen, twenty-eight and thirty-one clinics in the 1976-77, 1977-78 and 1978-79 fiscal years respectively.

The following comments were made with respect to the audit of the records of this program:

Funding Authority

We questioned whether Regulation 160/76, which authorizes funding of the independent community-based clinical delivery systems, comes within the scope of The Legal Aid Act. Nowhere in the Act could we find any reference to clinics or to clinical funding. By contrast, the provisions of the Act, whereby an individual is provided with legal aid by solicitors, are quite specific. Generally, regulations under an act are made to specify the administrative details of a program established by the act, rather than to create a new program. We therefore recommended that the uncertainty concerning the statutory basis of clinical funding be eliminated.

Control and Accountability of Expenditures

Essentially, the Law Society exercises financial control over the clinics in accordance with the specific terms of the funding agreement which is known as a 'clinical certificate'. The specific terms or conditions of funding include, among others:

USE OF FUNDS

The funds are to be used solely for the purposes of delivering legal or para-legal services to the public as defined in the regulation.

BUDGET ALLOCATIONS

Transfers within certain budget categories require prior written approval of the Clinical Funding Committee of the Fund.

CONFIDENTIALITY OF CLIENT INFORMATION

Clinic and client communication is confidential, and written approval of the client is required where client information is to be released to an employee or representative of the Fund.

CAPITAL ASSETS

Ownership of all capital assets purchased by a clinic out of approved funding vests in The Law Society of Upper Canada, and such items may not be sold, transferred or otherwise disposed of without the prior written consent of The Law Society.

REPORTS

An interim descriptive report of the various projects and services engaged in, and quarterly financial reports of expenditures are required.

In addition to the above conditions, the Fund administrators engaged a public accounting firm to audit grants received by the Clinics from the Fund and expenditures charged thereto for each clinic in 1977-78 and 1978-79.

The Fund administrators have visited and performed evaluations of the operations and activities of three clinics since the inception of funding.

In our opinion, control and accountability of funds provided to clinics has been weakened by the following factors:

- 1) The terms "legal and para-legal services" and "independent community based" are not defined in the regulations nor have they been defined by the Law Society. The nature of services provided by a clinic has been left to the discretion of the Clinical Funding Committee of the Society. The clinics describe in their application the nature of services they wish to perform and the Committee decides whether or not to fund such a service. From a review of applications of these clinics, we noted a variety of services being funded, including:
 - advice and information to clients regarding their rights and obligations under Administrative Law and Family Law;
 - representation of tenants in Court actions and in negotiations with landlords;

- research, writing and presentation of briefs to various government bodies on behalf of clients;
 - assistance in organizing tenant associations;
 - preparation and distribution of written material for community education;
 - 24 hour telephone service for tenant information advice;
 - telephone information service for advice and directional information;
 - law reform.
- 2) The confidentiality clause places a significant restriction on the ability of the Fund to monitor and evaluate the validity of the representation data contained in the clinics' reports concerning case load statistics, nature of services provided and financial information, in order for the Law Society to determine if funds were used solely for the purposes approved.

We recommended that either the confidentiality clause in the agreement with the clinics be revised to allow access to all information for monitoring and audit purposes, or that the clinics obtain a release from their clients at the time the clinic's services are requested.

- 3) The Fund does not require the clinics to determine the client's financial eligibility for the clinics' services, nor is there any requirement for this in the regulations. The Fund has, however, requested all clinics to be funded in 1979-80 to provide information concerning their eligibility criteria.

As a result of such information, we recommended that formal financial eligibility criteria be developed by the Law Society.

- 4) Clinics are not required to adopt purchasing procedures which call for competitive quotes for major purchases or to maintain records needed to safeguard fixed assets.

We recommended that procedures be developed.

- 5) The scope of the audits performed by the public accounting firm has been restricted to an examination of the books and records of the clinics for activities funded by the Ontario Legal Aid Fund only and is not concerned with the method of delivering legal aid or the safeguarding of fixed assets.

We recommended that the scope of these audits be broadened to allow access to all the financial records of the clinic. Otherwise, there can be no assurance that all sources of funding in support of legal services have been reported and that all expenditures charged are for legal services and not for other activities. Where a clinic has established financial eligibility criteria, the audit scope should include an examination of the amount so contributed from clients.

- 6) In light of the increased level of funding, the frequency of visits by the Fund administrators to evaluate clinics should be increased to an annual or appropriate cyclical basis.

- 7) Some of the services of some of the clinics are performed by para-legal workers without adequate staff lawyer supervision. It also appeared that para-legal workers are not adequately covered by liability insurance. The usual practice of law firms is to subscribe to such insurance and to validate the coverage by providing a sufficient assurance of competence through supervision of law students and other para-legal workers. We did not seek legal opinion as to the liability of the Fund or the clinics for opinions and actions taken by para-legal workers. We therefore recommended that the Legal Aid Fund determine if such liabilities exist, and if so, to ensure that the clinics have the necessary insurance coverage, and in order to validate the coverage, that they provide adequate supervision of the para-legal workers' activities.

Dual Income Remuneration

A full time employee of one clinic was also a member of the Residential Premises Rent Review Board, which is administered by the Ministry of Consumer and Commercial Relations. In addition to regular salary, the employee received per diem remuneration for Board hearings totalling \$4,457 during the period November 29, 1976 to August 1977 and September 14, 1978 to December 14, 1978. We visited the clinic to examine the employee's attendance records and were advised that such records are not maintained. According to the clinic, the employee did not refund any portion of the Board's remuneration received for work done during regular working hours.

We recommended that a recovery be made and that appropriate policy and procedures be established to prevent the occurrence of similar situations.

Program Objectives

We noted that measurable objectives have not been established in order to facilitate evaluation of the achievements of the Clinical Delivery System as a whole, or the achievements of individual clinics. We recommended the establishment of such objectives, and the development of procedures to measure and report on the effectiveness of the program.

Report by the Honourable S. G. M. Grange

On October 25, 1978, the Honourable S. G. M. Grange submitted a report of the Commission on Clinical Funding to the Attorney General of Ontario. Some of the findings in his report related to a number of the findings outlined in the preceding paragraphs.

Although the preceding comments have been reviewed with officials of the Law Society, no formal report had been issued as at September 28, 1979, the date of this Report. Therefore, we are not able to present the Director of Legal Aid's views on the subject matter.

90. Matters Related to Accounts Receivable and Increase in Fee, Motor Vehicle Accident Claims Fund. At March 31, 1979 the balance in the Fund amounted

to \$29,922,179. A statement of the Fund for the year ended March 31, 1979 is contained in Volume 1 of the 1978-79 Public Accounts, page 81.

Accounts Receivable

Page 84 of the 1978-79 Public Accounts shows the Fund's accounts receivable as \$20,373,398 under the Ministry of Consumer and Commercial Relations. This is a net amount, after providing \$75 million for doubtful accounts.

The allowance for doubtful accounts is arbitrarily determined and is not based on an individual appraisal of each account receivable or on an aging of the balances outstanding (e.g. current, 30-60 days, 61-90 days, over 90 days). Actual accounts written off as uncollectable in 1978-79 amounted to only \$4,025,372.

We recommended that efforts be made to prepare monthly aged listings of accounts receivable which would assist in establishing a meaningful allowance for doubtful accounts and in assessing the Fund's collection efforts.

Increase in Fee

Ontario Regulation 937/78 revised the uninsured motor vehicle fee, referred to in subsection 2 of section 2 of The Motor Vehicle Accident Claims Act, from \$100 to \$150 effective January 1, 1979. By renewing their motor vehicle registration permits in December 1978, 2,027 owners of motor vehicles escaped the increase and paid at the old rate of \$100.

We were at a loss to understand why legislation was not introduced earlier to effect the increase from December 1, 1978. Had this been done, the Fund would have benefitted by additional revenue of \$101,350.

The foregoing comments were included in a report sent to the Director of the Fund on August 24, 1979. We have no record of a reply as at September 28, 1979, the date of this Report. We are, therefore, unable to present the Director's views on the matters raised.

91. Operating Losses on Various Activities, Office of the Assembly. The financial statements of the Office of the Assembly for the year ended March 31, 1979 reflect expenditure of \$21,926,615 and revenue of \$79,629. With the exception of statutory payments, expenditures are made out of moneys appropriated therefor by the Legislature, while revenue is deposited into the Consolidated Revenue Fund.

The dining room, snack bar and catering service were managed by an outside caterer until November 1, 1978 when they were taken over by the Office of the Assembly. The loss for the year ended March 31, 1979 amounted to approximately \$135,700, an increase of approximately \$18,700 over the loss for the previous year. The main cause of the increased loss was attributed to higher staff wages in the 1978-79 fiscal year. Although the sales and the number of patrons have increased during the first quarter of the 1979-80 fiscal year, and prices have been increased as of July 1, 1979, it appeared that the increased revenue would still be insufficient to cover the cost of operations.

We recommended that further adjustments be made in the services and prices to ensure that operating costs are fully recovered. In this regard, we felt that con-

sideration should be given to discontinuing the breakfast service during the period that the House is not in session, as the cost of remaining open during this period is far in excess of the revenue earned.

The stewards' operation, which comprises the sale of liquor, wine, beer, tobacco and sundry items, resulted in a net loss for the year ended March 31, 1979 of approximately \$116,000, an increase of approximately \$8,000 over the loss sustained for the previous year. The net loss for the barber shop operation for the year ended March 31, 1979 was \$6,263. The total sales amounted to \$14,186 but the total operating expenditure which was primarily salary, was \$20,449. We recommended that the prices of these products and service be increased to a level sufficient to recover the cost of operations.

The foregoing comments were transmitted to the Office of the Assembly on September 28, 1979, the date of this Report. The Office has not had an opportunity to respond to our recommendations and we are, therefore, unable to present its views on the subject matter.

92. Inaction Noted Re Recommended Closing of Branch Facility, Ontario Agricultural Museum. The Museum's Statement of Expenditure for the year ended March 31, 1979 reflects total expenditure of \$712,751. Museum expenditures are paid out of moneys appropriated by the Legislature.

In May 1978, the General Manager of the Museum recommended a complete withdrawal of Museum interests from the Ministry of Government Services property at Hawkestone, Ontario. This suggestion was supported by the Operational Review Branch of Management Board as well as the Ontario Agricultural Museum Advisory Board in their board meeting of February 9, 1979.

These recommendations were based on the fact that some of the restoration work is done in Hawkestone, which is 150 kilometres from the Museum in Milton, making it difficult at times to manage and co-ordinate activities. As well, items could probably be transported to Milton and restored at the Museum site. This would consolidate the operations along with the workshop equipment used to restore the artifacts, and eliminate the management problems caused by the distance factor.

The costs of the Hawkestone site for the year ended March 31, 1979 including salaries and wages and employee benefits amounted to approximately \$42,000. This did not include the costs of frequent trips back and forth between Milton and Hawkestone by various members of the staff to deliver goods, carry out administrative duties and maintain supervision over the latter facility.

We recommended that the Ministry of Agriculture and Food review the Hawkestone operation in light of the various recommendations made and seriously consider the consolidation of Hawkestone with the Milton operation and the resulting transfer of selected items to the Milton site.

The foregoing comments were transmitted to the Museum and to the Minister of Agriculture and Food on August 27, 1979. No reply has been received as at September 28, 1979, the date of this Report. Therefore, we are not able to present the Ministry or Museum's views on the subject matter.

93. Loss on Terminated Film Production, The Ontario Educational Communications Authority. As at March 31, 1979, the assets of the Authority totalled \$12,503,098 with offsetting liabilities of \$5,406,128 and equity of \$7,096,970. For the 1978-79 fiscal year, revenue, including grants of \$21,735,952 from the Province of Ontario, amounted to \$24,249,658. Expenses, including fixed assets purchased from revenue, totalled \$24,136,388.

On February 10, 1978, the Authority entered into an agreement with a Producer to co-produce a series of ten films. The budget for the venture was \$250,000 of which the Authority was to provide \$125,000 with the remainder coming from private investors. The Authority was to pay its \$125,000 investment to the Producer in stages as certain conditions regarding production progress and financial terms were met. The first payment of \$15,000, due upon execution of the agreement, was made to the Producer on February 13, 1978. On February 20, 1978, the Producer informed the Authority that there were financial problems and that the estimated costs of production had now increased to \$500,000. Notwithstanding the escalating costs and the Producer's failure to provide a statement of financial position as required by the terms of the agreement, on May 29, 1978, the Authority paid the second instalment of \$15,000. On June 26, 1978, the third and fourth payments of \$10,000 and \$40,000 respectively were approved and subsequently paid, with the report on the financial position still outstanding and the requirements for the third instalment regarding private financial participation still incomplete. While the Producer's solicitors did confirm that private investors would be investing up to \$125,000 in 1978 against a \$500,000 budget, specific investors were not named nor was any investment subsequently made. Other letters of intent to invest which were presented to the Authority had conditional clauses, and therefore were not reliable commitments.

The Authority's first concerns about the financial viability for the production of the films were expressed upon their receipt of a letter dated July 21, 1978 from the Producer which requested additional funding. The Authority then reviewed the Producer's financial position and this resulted in the eventual withdrawal from the production and the write-off of the Authority's \$84,826 investment (\$80,000 advanced to the Producer and \$4,826 internal expenses).

In our opinion, the Authority, by ignoring the financial implications of the escalating budget and failing to examine the Producer's financial position on a timely basis, did not apply due care in the authorization of these expenditures. Had due care been exercised, the Authority's loss might have been restricted to \$15,000.

The preceding comments were included in a report sent to the Authority on August 31, 1979. Since no reply has been received as at September 28, 1979, the date of this Report, we are unable to present the Authority's views on the matter.

94. Non-Routine and Non-Arm's Length Transactions, Ontario Food Terminal Board. The Board's audited financial statements for the year ended March 31, 1979 are reproduced in Volume 2 of the 1978-79 Public Accounts.

At the conclusion of our interim audit, we reported to the Chairman of the Board our observations on certain transactions involving the Ontario Food Terminal Board, senior management and a member of the Board.

Two of these transactions, between management and the Ontario Food Terminal Board, were non-arm's length involving the part-time employment of members of immediate family and the purchase of a vehicle.

Two of these transactions between a member of the Board and the Ontario Food Terminal Board involved transactions of a personal nature.

We recommended that such transactions be strictly prohibited by the Board and the fact of such prohibited practices be communicated in writing to the appropriate levels of officers and employees of the Board.

As at the date of this Report, September 28, 1979, we have no record of a written reply from the Chairman regarding the preceding interim observations, and our formal year end report had not yet been issued to the Board. Accordingly, we are unable to present the Board's views on the subject material.

95. Questionable Matters Concerning Grant Payment, Ontario Housing Corporation. On September 27, 1978, the Ontario Housing Corporation granted \$85,000 to The Institute of Housing Management (IHM) to cover the cost of developing seventeen study units to complete a home study course for the training of housing managers. The application for this grant stated that there was an urgent need to provide training courses in the housing management field because of a serious scarcity of well-trained housing managers, and that there was no education facility which provides Housing Management training except for a full-time program offered by a community college. However, we noted that a property management course leading to a Certified Property Manager (CPM) designation was available through the Institute of Real Estate Management (IREM) Division of the Real Estate Institute of Canada. The requirements for the CPM designation are the successful completion of IREM courses, and the examinations and related courses at twenty-four educational institutions in Canada, eleven of them located in Ontario. All of the required courses are available on a correspondence basis. We understood that management was aware of the existence of this course, but did not consider it to be a suitable alternative.

The grant application further stated that the costs to develop the necessary courses would be considerably more if arranged totally through a private commercial organization, since the Institute would utilize the resources and expertise of its own membership as course writers. However, upon receiving the grant, the Institute hired a commercial correspondence school to develop the seventeen courses, and the school in turn paid a number of Institute members for writing some of the courses.

In the course of our examination of the grant usage, the following was noted:

The Institute of Housing Management was incorporated on January 16, 1976 with the objective to promote the science, art, standards and ideals of housing

management and the education and training of Housing Managers in their profession. Although all of the incorporators of the Institute were Ontario Housing Corporation employees and managers of housing authorities reporting to the Corporation, the Institute is a private company which is not responsible to Ontario Housing Corporation or any other government body.

The major support for the Institute has been provided by Ontario Housing Corporation resources. The Institute's office and records are housed on Corporation property, and its telephone number is the office number of a Corporation employee who is also an officer of IHM. The original financing of the Institute was provided by the Corporation with a \$1,000 grant. The Institute has monthly board of director meetings which are attended by a number of Corporation employees in their capacity as Institute members. All board meetings are held during regular working hours for which employees take leave with pay from their regular Corporation duties. The Institute does not reimburse the Corporation for office space or employees' time spent on Institute business.

We also noted that some of the paid course writers are Corporation employees as well as Institute members.

Although we did not question the need for training housing managers or management's good faith in attempting to provide such training, we did question the close relationship between IHM and the Corporation. This relationship creates a potential conflict of interest when individuals who are both Corporation employees and IHM officials are in the position to recommend grants to IHM (the Corporation cheque requisition for the \$85,000 grant was prepared and authorized by Institute members, acting in their capacity as Corporation employees), and to approve the attendance of Corporation employees to conduct IHM business on Corporation time. Additionally, although the Corporation provided resources needed to operate the Institute it has no control over its assets or operations.

We were subsequently advised as follows by the Corporation:

"Observations on this grant implies there could be some irregularity in the Corporation's relationship with the Institute of Housing Management. The Board views the Corporation's relationship with the Institute as being both necessary and logical. For your further information the complete background of the founding and development of the Institute is set out below.

"Both the Corporation and the Ministry of Housing, at the outset, foresaw the very tangible benefit the formation of an accrediting body would provide to the roughly three hundred housing authority and Provincial Government employees. In addition, similar benefits would accrue to the housing management industry as a whole, including those private sector personnel involved in the management of condominiums. Many difficult problems encountered by this latter form of housing enterprise had been identified as management skill oriented.

"In retrospect, the Corporation feels absolutely justified in taking the initiatives it did to set in motion the formation of an organization which

has, in four short years, with our encouragement, more than achieved its objectives.

"The prime movers in the formation of the Institute were senior staff members invited by the Corporation to pursue this purpose. The benefits that were to accrue to the Corporation and the housing management industry as a whole, are far reaching and controls were in place to ensure that start up funds granted were used for the purpose intended.

"Further, the subsequent election of senior staff of the Corporation to serve on the Board of Directors of the Institute, was additional assurance that the interests of the Corporation were fully safeguarded.

"At the time the Institute of Housing Management applied for the one time grant of \$85,000, this Corporation was fully aware of the existence of the Institute of Real Estate Management and its CPM courses, and agreed with the Institute that these were unsuited to the overall needs of housing management, being well beyond the reach of most property managers due to the high cost involved.

"By utilizing the facilities of the International Correspondence Schools, an organization of international repute, the Institute identified to the Corporation thirty-two study units, which fitted its syllabus, and which were available immediately for home study. This, in effect, saved some \$315,000 of a \$400,000 original estimate for the total production of a home study package.

"The support the Corporation has offered the Institute is administrative in nature, and while this may have been considered substantial at the outset, such support was withdrawn to a very large degree soon after the Institute's incorporation. Support at this time is confined to the release of six staff members, who are Directors of the Institute, to enable them to attend a monthly Board meeting of 2½ hours duration.

"As far as office accommodation is concerned, this is confined to the space required for one filing cabinet.

"Three of the course writers, who were paid a nominal fee, were Corporate employees and members of the Institute. However, all assignments of this nature were undertaken in the employees' own time.

"The expenditure of the \$85,000 grant is being carefully monitored by the Management Board of Cabinet, through one of its analysts."

96. Stronger Penalties Urged for Tenant Misrepresentation of Income, Ontario Housing Corporation. The Corporation's audited financial statements for the year ended December 31, 1978 are reproduced in Volume 2 of the 1978-79 Public Accounts.

The rental rates for Ontario Housing Corporation units are based on the tenants' gross family income and therefore tenants are required to state their income for rent calculation purposes. However, in many cases, the total stated income can-

not be proven, since any omissions of part-time work or spouses' jobs cannot be traced. Exposures of income misrepresentation usually result when a third party, such as a neighbour, informs on a tenant. Since exposures of this type depend on third party disclosure, the extent of the problem cannot be determined; however, in our opinion, only a small percentage comes to light.

For the 1978 year, 42 misrepresentations in the Metro Toronto area were uncovered, resulting in 37 completed investigations which revealed that the Corporation had lost, before any recoveries, \$136,285 in rental revenue, or an average of \$3,683 per case.

The practice of the Corporation is to endeavour to recoup any losses resulting from misrepresentations. The consequences for a tenant who misrepresents his income are either a settlement of previous underpayments, or if repayments of rent are not made, expulsion from the rented unit. In our opinion, these consequences are not a sufficient deterrent to the tenant who fraudulently misrepresents income, and we therefore recommended that in those cases where fraudulent activity is discovered, the Corporation, in cooperation with the Attorney General, lay criminal charges. Although we were advised that under the present lease agreement prosecution may not be possible, we noted that a provincial housing authority with an identical lease agreement has gained a conviction.

We also noted that the provincial housing authorities follow their own procedures in regard to tenant income misrepresentation. In order to protect the public purse in a consistent manner, we further recommended that any policy established for Metro Toronto projects also apply to provincial housing authorities.

The Corporation subsequently responded as follows:

"Your recommendation that the Corporation, in co-operation with the Attorney General, lay criminal charges against tenants who have fraudulently misrepresented their income has been seriously considered by the Corporation but with reservations. The Corporation agrees that a criminal fraud conviction in flagrant cases will serve as a deterrent to other tenants. However, not every misrepresentation amounts to criminal fraud. In many cases the provable facts, while sufficient to prove misrepresentation for the purposes of a civil suit, are not sufficient to prove criminal fraud. It has, therefore, been the practice of both the Corporation and of its Housing Authorities, in the case of persons who are currently tenants, to obtain civil judgments under Part IV of the Landlord and Tenant Act for eviction and repayment, and only to institute police investigation leading to criminal fraud charges where deliberate and serious dishonesty can be proven to the standards required by criminal law. In most cases, with respect both to existing and former tenants, where misrepresentation of income has occurred, civil judgments can be obtained in either County or the Supreme Court and this is the more appropriate course to pursue. During the last several months, judgments and settlements have been concluded for a total of \$24,600 which has been received either in the form of lump sum payments or is being collected in periodic monthly payments.

"Your comment that prosecutions may not be possible under the present lease is not entirely correct. The difficulty was experienced with the annual income verification forms required to be signed by the tenant pursuant to the lease agreement, rather than with the lease itself. This was due to the fact that the space for insertion of the income information appeared below the space where the tenant was required to sign and was often completed by an attending OHC staff member rather than by the tenant. In addition, the form did not provide for the signature of a witness. This form was revised in November, 1978 to rectify these deficiencies and is now in general use."

97. Opportunity for Improved Allocation of Grants, Province of Ontario Council for the Arts. The principal function of the Council is to promote the study and enjoyment of and the production of works in the arts by providing grants to organizations and persons. As at March 31, 1979 the assets of the Council amounted to \$1,692,712, with offsetting liabilities and reserves. For the 1978-79 fiscal year, revenue, including grants of \$12,944,373 from the Province of Ontario, totalled \$13,124,174 while expenditure was \$12,582,574.

Commencing with the fiscal year 1977-78, funding of ongoing administrative expenses of approximately thirty provincial and national arts service organizations was transferred from the Council to the Arts Services Branch of the Ministry of Culture and Recreation. These organizations are also eligible to apply to the Council for assistance with special programs or activities. Prior to this arrangement, most of these organizations were assisted solely through the Council.

The Ministry developed detailed eligibility criteria and guidelines for funding these arts service organizations, and a formula based operating grant program for funding art galleries in order to determine and regularize the level of support for administrative expenses. In developing the criteria and guidelines for funding arts service organizations, the Ministry took into consideration:

- the extreme diversity of types of service organizations;
- the variety of programs and activities of the organizations;
- diverse memberships; and
- widely divergent levels of existing provincial support.

The Council has not developed such criteria, guidelines or formulae in funding administrative expenses for other arts organizations. In order to establish comparable improvements in the allocation of grants, we recommended that:

- (a) a similar approach be taken by the Council to develop criteria, guidelines and/or formulae to be used in determining the level of support for funding administrative expenses of the other arts organizations which are currently solely funded by the Council; or
- (b) a review be made by the Council of all its existing grant programs to establish whether or not a dual funding arrangement, similar to what has been arranged with the Ministry for arts service organizations, would be more appropriate.

The foregoing comments were reviewed with officials of the Council. However,

no formal report had been issued as at September 28, 1979, the date of this Report. Therefore, we are unable to present the Council's views on the subject matter.

98. Report Made to the Standing Public Accounts Committee Re Matters Pertaining to The Royal Ontario Museum. Pursuant to a Report of the Standing Public Accounts Committee to the Legislative Assembly dated May 31, 1979 (adopted by the Assembly on June 4), we were required to analyze the most current monthly financial statements and budget of The Royal Ontario Museum, and to report back to the Committee on the results of such work.

Accordingly, a memorandum detailing the results of our review was tabled with the Committee on June 21, 1979. An official copy of this memorandum is on file in the Office of the Clerk of the Legislature.

Our memorandum consisted of two sections, which covered the following subject material:

- 1) Matters related to the Museum's Renovation/Expansion program, together with related Province of Ontario and other financing for such expansion;
- 2) Matters, other than the preceding, resulting from a general analysis of the Museum's financial statements and budget, specifically dealing with the rationale for and consistency of, the proration of receipts and expenditures, as between operating funds and trust funds.

This memorandum was reviewed in detail at Committee meetings which were held on June 27 and June 28. Both the Minister and Deputy Minister of Culture and Recreation were present at and participated in these meetings, together with the Chairman of the Museum's Board of Trustees and the Director of the Museum.

It is expected that recommendations resulting from this review will form part of the Committee's final Report to the Legislative Assembly, which should be released near the end of the current year.

99. Excess Capacity at New Transport Terminal, Star Transfer Limited. As at December 31, 1978 the assets of the Company totalled \$8,411,074. Liabilities and reserves amounted to \$6,905,899, while capital and retained income totalled \$1,505,175. For the fiscal year ended December 31, 1978, the Company incurred a loss of \$665,655.

Star Transfer Limited was incorporated as a private company on January 2, 1951, and was subsequently purchased by the Ontario Northland Transportation Commission under an agreement dated July 11, 1960. Since that time Star Transfer Limited has operated as a wholly-owned subsidiary of the Commission, and has provided trucking service throughout northeastern Ontario.

The Directors' minutes of July and October 1978 indicated that the newly constructed transport terminal in the Toronto area, brought into service during 1978 and costing approximately \$3,300,000, provided facilities in excess of the Company's needs.

The pre-design study prepared for the Company in 1974, by consulting engineers, forecasted a growth rate of 8.4 per cent per year on the assumptions that the Company:

- (a) maintain existing services,
- (b) acquire new service areas by merging with a North Bay licensee or by obtaining a licence to permit delivery to North Bay, and
- (c) obtain some type of limited commodities licence, in furniture for example, with lower tariffs.

In the period between the 1974 pre-design study and May 1977, the month following the date when the contract to construct the terminal as planned was awarded, reports to management indicated that shipments requiring terminal facilities dropped 14.8 per cent in 1975 and 3.3 per cent in 1976. Licences were also issued in this period to two other carriers in the Company's existing serviced area.

The Company estimated in October 1975 that an investment of \$200,000 would have brought the existing terminal to acceptable standards for the Company's immediate requirements, which presented a significant alternative to the proposed investment required for the new terminal. Except for approval by the Board of Directors on April 26, 1978 to apply for an "A" licence to North Bay and Sudbury, we found no evidence that the Company acquired, or attempted to acquire, new serviced areas through merger or licence, or obtained any limited commodities licences consistent with those described in the pre-design study.

Subsequent to December 31, 1978, we were advised that management was investigating the lease and operation of the maintenance facilities of the Toronto terminal to another company, and was also investigating arrangements with another carrier. A consulting firm was engaged to review the Company's operations.

We were advised as follows by the Chairman of the Ontario Northland Transportation Commission's Audit and Finance Committee on August 29, 1979:

"The facts contained in the report are essentially correct and no further elaboration at this point is considered necessary.

"We would like to point out that the lease and operation of the maintenance facility of the Toronto terminal by another company was in effect for a period of approximately five months. It has, however, since reverted back to Star Transfer Limited and is again operated by the Company.

"The consultant engaged to examine the operations of Star Transfer Limited has completed his work and made various recommendations, many of which have been implemented.

"In addition, a new general manager has been appointed effective August 15, 1979."

100. Improved Computer Controls Recommended, Workmen's Compensation Board. The audited financial statements of the Board for the year ended December 31, 1978 are reproduced in Volume 2 of the 1978-79 Public Accounts.

A) Disaster Recovery Plan

We recommended that an EDP disaster recovery plan, together with a user

contingency plan, be established by the Board within the immediate future by a combined task force of the Information Systems and Data Processing (ISDP) Branch and users. We appreciated that such a plan would represent a major undertaking, and may require upwards of one full year in terms of elapsed time for development.

The growth of ISDP services and the acceptance and reliance of the Board's users on on-line systems, combined with the Board's high degree of visibility with the general public, leaves no alternative.

Responsibility for the development of this plan should probably be vested with the Systems Security function, and we suggested that the Board consider the use of external management consultants to review the plan. In any case, it would be imperative that the developed plan be put to a full unscheduled test in order to ascertain its validity and thoroughness, prior to its acceptance as policy and procedure.

B) Review Procedures

At the time of the audit, we were given to understand that minimal regular review was being exercised over:

- (i) unsuccessful on-line screen "sign-ons", and
- (ii) computer utilization by application, users, and ISDP.

We therefore recommended that the Systems Security function should include:

- (i) establishing an automatic monitoring and reporting function within each of the computers to identify the time, nature, and location of unsuccessful "sign-on" attempts and that such reporting be reviewed several times per day and not solely at week or month ending intervals, at which point the tracing of a potentially unauthorized access is not feasible. Unsuccessful "sign-on" attempts are usually an indication of one of two conditions:
 - (a) an unauthorized user has not received sufficient instructions and is incapable of performing a proper "sign-on", or
 - (b) an unauthorized individual is attempting to establish the method of authorized entry to perpetrate a defalcation.

Similarly, authorized "sign-ons" should be recorded and reviewed for abnormal or unusual time, type, and nature of usage.

- (ii) reviewing computer usage on a regular basis, probably weekly, to assure that there exists no misappropriation of computer resources.

On July 19, 1979 the Executive Director, Financial Services Division, advised us as follows:

Disaster Recovery Plan

"This is only one element of a comprehensive contingency plan. The Systems Development Steering Committee has been reviewing this matter

and an appropriate course of action to address our needs will be forthcoming in the near future."

Review Procedures

"The necessary software is either being planned, developed or implemented and due to the complexity of our operating environment, such data will be limited in value until our environment stabilizes and our applications are all under OS (Operating System) and the control of a data security system."

ACKNOWLEDGEMENTS

I am pleased, once again, to have this opportunity to express my appreciation and that of my colleagues in the Audit Office for the co-operation and assistance extended to us by officials and staff of the various ministries and agencies of the Crown during the conduct of our audits.

Also, I wish to thank the members of my own staff for their strong support during the past year in the fulfillment of our responsibilities to the Legislature.

A handwritten signature in dark ink, appearing to read 'F. N. Scott', with a large, sweeping flourish extending from the end of the name.

F. N. Scott, F.C.A.,
Provincial Auditor.

Toronto, September 28, 1979.

EXHIBITS

1. Province of Ontario, Audited Financial Statements, Year Ended March 31, 1979.
2. Management Board Orders — Amounts Authorized and Expended Thereunder during the Year Ended March 31, 1979.
3. Statutory Appropriations — Amounts Expended Thereunder during the Year Ended March 31, 1979.

Office of the Provincial Auditor:

4. Organization Chart
5. Ministry Audits and Special Reviews, Year Ended March 31, 1979.
6. Agency of the Crown and Crown Controlled Corporation Audits, Year Ended March 31, 1979.
7. Status of Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports.
8. Status of Recommendations Contained in the Reports of the Standing Public Accounts Committee to the Legislative Assembly.
9. Summary of Recommendations — Report of the Royal (Lambert) Commission on Financial Management and Accountability.

EXHIBIT 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*The Accounting Entity*

In the operation of its financial affairs the Province of Ontario employs the concept of a Consolidated Revenue Fund, unique to the parliamentary system of government. The financial transactions of government ministries are recorded and displayed as Consolidated Revenue Fund cash inflows and outflows. With respect to the financial operations of provincial crown corporations, agencies, boards and commissions, the financial statements of the Consolidated Revenue Fund reflect only the extent to which their operations have been financed from or have contributed to the Fund for the year.

The Accounting Basis

The Province of Ontario uses the cash basis of accounting for its financial transactions, modified to allow an additional thirty days to pay for goods and services pertaining to the fiscal year just ended. In this regard, payments to employees for the pay period which overlaps the fiscal year end date are apportioned between the two years. The cash basis of accounting, modified as described, is used to disclose to the public the stewardship of the Government in regard to monies entrusted by appropriation, and raised through taxes and borrowing. Revenues and expenditures being unrelated in nature are matched only by timing of cash flow.

Classification of Transactions

The transactions of the Province of Ontario are presented in summary form according to the three distinct areas of government activity through the Consolidated Revenue Fund.

“Budgetary Transactions” are operational activities which include the revenues raised through taxation, premiums, fees, licences and permits, payments from the federal government under shared-cost programs and income from investments. Expenditures on government programs include payments for goods and services, interest on the public debt, salaries, transfer payments to individuals, municipalities and institutions under various social programs, subsidies and grants, and the acquisition or creation of fixed assets. The extent to which revenue exceeds or falls short of expenditure directly decreases or increases the net debt of the Province.

“Non-Budgetary Transactions” are the lending, investment and trust administration functions which include, as distinct from expenditure, the government lending and investment activity in various crown corporations, agencies and municipalities. All of these loans and advances are repayable or represent equity holdings supported by the assets of the corporations. Also included in this category is the activity within deposit, trust and certain special purpose accounts. “Disbursements” is the term used to describe the lending and investment transactions of the government. “Receipts” consist of the repayment of loans or recovery of investments. “Credits” is the term used to describe pay-

ments into deposit, trust and special purpose accounts. Payments made from these same accounts are termed "Charges".

"Debt Transactions" are the borrowing and repayment transactions which include obligations issued to both non-public and public sources of funds.

Assets and Liabilities

The assets and liabilities reported in the financial statements are financial claims which have been created by cash transactions. The assets are claims by the Consolidated Revenue Fund on other parties. The liabilities are claims by other parties on the Consolidated Revenue Fund.

Since expenditures on fixed assets do not represent financial claims on other parties and are not considered to differ from any other service to the public they are not reported as assets but are expensed as budgetary items in the year of acquisition.

Debentures, notes and treasury bills are recorded as liabilities at the face value of the debt instrument, and discount, premium and commission expenses are treated as current year budgetary transactions. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario of debt instruments issued by provincial agencies, boards and commissions and bank loans under certain government programs. Other significant legal commitments and liabilities are disclosed in notes to the financial statements.

The net debt of the Province is the excess of liabilities over recorded assets. It is also the accumulation of all budgetary deficits and surpluses since Confederation. The year-to-year change in net debt is the amount by which revenues exceed or are less than budgetary expenditures.

EXHIBIT 1

STATEMENT OF CONSOLIDATED REVENUE FUND

for the year ended March 31, 1979

	1979 (\$ millions)	1978 (\$ millions)
OPENING BALANCE		
Cash, temporary investments and marketable securities	548	804
BUDGETARY TRANSACTIONS		
Revenue	12,566	11,308
Expenditure	<u>14,157</u>	<u>13,129</u>
Budgetary deficit	(1,591)	(1,821)
NON-BUDGETARY TRANSACTIONS		
Loans, Advances and Investments		
Receipts	503	321
Disbursements	<u>1,129</u>	<u>949</u>
Net Increases in Loans, Advances and Investments	<u>(626)</u>	<u>(628)</u>
Trust Administration Functions		
Credits	491	420
Charges	<u>122</u>	<u>125</u>
Net Increase in Trust Administra- tion Functions	<u>369</u>	<u>295</u>
Non-Budgetary Transactions (net)	<u>(257)</u>	<u>(333)</u>
CASH REQUIREMENTS*	(1,848)	(2,154)
DEBT TRANSACTIONS		
Proceeds of Loans	2,514	2,036
Retirements of Loans	<u>194</u>	<u>138</u>
Debt Transactions (net)*	<u>2,320</u>	<u>1,898</u>
CLOSING BALANCE		
Cash, temporary investments and marketable securities	<u>1,020</u>	<u>548</u>

*Includes borrowing and lending on behalf of Ontario Hydro. See Note 2.

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF BUDGETARY REVENUE

for the year ended March 31, 1979

	1979 (\$ millions)	1978 (\$ millions)
TAXATION		
Personal Income Tax	2,735	2,447
Retail Sales Tax (Note 10)	1,717	1,926
Corporations Tax	1,278	1,014
Gasoline Tax	539	523
Tobacco Tax	258	206
Motor Vehicle Fuel Tax	94	85
Land Transfer Tax	67	62
Succession Duty	63	73
Race Tracks Tax	46	43
Federal Government Income Tax Revenue Guarantees ..	44	210
Other	65	41
	<u>6,906</u>	<u>6,630</u>
OTHER REVENUE		
Premiums—Ontario Health Insurance Plan	977	830
Profits from Crown Corporations and Boards		
Liquor Control Board of Ontario	356	327
Ontario Lottery Corporation	46	71
Vehicle registration fees	301	267
Liquor Licence Board—fees	113	93
Other fees and licences	131	126
Fines and Penalties	62	59
Royalties	57	49
Utility Service Charges	55	48
Other	102	98
	<u>2,200</u>	<u>1,968</u>
GOVERNMENT OF CANADA		
Established Programs Financing		
Cash Contribution	1,605	1,233
Extended Health Care Services	188	167
Hospital Insurance and Diagnostic Services Act	28	29
Canada Assistance Plan	410	416
Economic Stimulation (Note 10)	289	
Adult Occupational Training Agreement	105	76
Other	163	141
	<u>2,788</u>	<u>2,062</u>
INTEREST ON LOANS, ADVANCES AND INVESTMENTS: (Note 2)	<u>672</u>	<u>648</u>
TOTAL BUDGETARY REVENUE	<u><u>12,566</u></u>	<u><u>11,308</u></u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF BUDGETARY EXPENDITURE

for the year ended March 31, 1979

	1979 (\$ millions)	1978 (\$ millions)
SOCIAL DEVELOPMENT POLICY FIELD		
Health	3,958	3,631
Education	2,391	2,343
Colleges and Universities	1,371	1,257
Community and Social Services	1,226	1,137
Culture and Recreation	207	192
Social Development Policy	2	2
	<u>9,155</u>	<u>8,562</u>
RESOURCES DEVELOPMENT POLICY FIELD		
Transportation and Communications	1,068	1,035
Natural Resources	246	243
Agriculture and Food	174	170
Housing	167	172
Environment	122	114
Industry and Tourism	60	53
Labour	34	29
Energy	10	7
Resources Development Policy	3	3
	<u>1,884</u>	<u>1,826</u>
JUSTICE POLICY FIELD		
Solicitor General	168	153
Attorney General	140	129
Correctional Services	130	119
Consumer and Commercial Relations	63	63
	<u>501</u>	<u>464</u>
GENERAL GOVERNMENT		
Intergovernmental Affairs	510	391
Government Services	253	271
Revenue	194	194
Northern Affairs	125	113
Office of The Assembly	22	30
Treasury and Economics	21	19
Other	18	17
	<u>1,143</u>	<u>1,035</u>
PUBLIC DEBT—Interest (Note 2)	<u>1,474</u>	<u>1,242</u>
TOTAL BUDGETARY EXPENDITURE	<u><u>14,157</u></u>	<u><u>13,129</u></u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF NON-BUDGETARY TRANSACTIONS

for the year ended March 31, 1979

	1979 (\$ millions)	1978 (\$ millions)
LOANS, ADVANCES AND INVESTMENTS		
Receipts		
Ontario Hydro—advances secured by bonds	83	58
Nuclear power generating station—Pickering (Note 2)	20	22
Other corporations, boards and commissions		
Ontario Mortgage Corporation	144	21
The Ontario Education Capital Aid Corporation	67	62
The Ontario Universities Capital Aid Corporation	28	27
Ontario Housing Corporation	34	12
Other	33	47
Water treatment and waste control facilities	52	35
Loans to municipalities	22	18
Other loans and investments	20	19
	<u>503</u>	<u>321</u>
Disbursements		
Ontario Hydro	750	450
Other corporations, boards and commissions		
The Ontario Education Capital Aid Corporation	71	81
The Ontario Universities Capital Aid Corporation		34
Development Corporations	40	42
Ontario Housing Corporation	29	30
Ontario Mortgage Corporation	16	85
Other	36	17
Water treatment and waste control facilities	147	135
Loans to municipalities	39	44
Other loans and investments	1	31
	<u>1,129</u>	<u>949</u>
NET INCREASE IN LOANS, ADVANCES AND INVESTMENTS	<u>626</u>	<u>628</u>
TRUST ADMINISTRATION FUNCTIONS		
Credits		
Pension funds	302	253
Deposit, trust and reserve accounts	128	161
The Province of Ontario Savings Office Deposits—net increase	61	6
	<u>491</u>	<u>420</u>
Charges		
Pension funds	71	58
Deposit, trust and reserve accounts	51	67
	<u>122</u>	<u>125</u>
NET INCREASE IN TRUST ADMINISTRATION FUNCTIONS	<u>369</u>	<u>295</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF DEBT TRANSACTIONS

for the year ended March 31, 1979

	1979 (\$ millions)	1978 (\$ millions)
PROCEEDS OF LOANS		
Non-public		
Canadian Pension Plan Investment Fund	916	851
Teachers' Superannuation Fund	489	488
Ontario Municipal Employees Retirement Fund	100	190
Central Mortgage and Housing Corporation—waste control loans	64	57
	<u>1,569</u>	<u>1,586</u>
Public		
On behalf of Ontario Hydro	750	450
Treasury bills (net)	195	
	<u>945</u>	<u>450</u>
TOTAL PROCEEDS OF LOANS	<u>2,514</u>	<u>2,036</u>
RETIREMENTS OF LOANS		
Non-public		
Central Mortgage and Housing Corporation— waste control loans	14	6
Government of Canada, Municipal Development Loan Board	4	5
Government of Canada, Federal-Provincial Employment Incentive Programs	3	3
	<u>21</u>	<u>14</u>
Public		
On behalf of Ontario Hydro	83	58
For general purposes	90	66
	<u>173</u>	<u>124</u>
TOTAL RETIREMENTS OF LOANS	<u>194</u>	<u>138</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF ASSETS AND LIABILITIES

as at March 31, 1979

	1979 (\$ millions)	1978 (\$ millions)
Assets		
Cash, temporary investments and marketable securities (Note 1)	1,020	548
Advances to Ontario Hydro (Note 2)	3,573	2,926
Advances and investments—other corporations, boards and commissions (Note 3)	4,340	4,455
Investments in water treatment and waste control facilities (at cost less recoveries) (Note 4)	975	880
Loans to municipalities	342	325
Other loans and investments (Note 5)	250	269
Total recorded assets	10,500	9,403
Net debt	9,569	7,978
	<u>20,069</u>	<u>17,381</u>
Liabilities		
Deposits with The Province of Ontario Savings Office	406	345
Pension Funds (Note 6)	1,567	1,336
Deposit, trust and reserve accounts	399	322
Advances payable	91	112
Treasury bills	325	130
Debentures and notes (Note 7)	17,281	15,136
	<u>20,069</u>	<u>17,381</u>
Contingent liabilities (Note 8)	6,734	6,212

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

Approved on behalf of the Ministry of Treasury and Economics.

A RENDALL DICK, Deputy Treasurer of Ontario and Deputy Minister of Economics.

G. McINTYRE, F.C.A., Executive Director, Treasury Division.

EXHIBIT 1

NOTES TO THE FINANCIAL STATEMENTS

(all figures in millions of dollars)

1. Cash, Temporary Investments and Marketable Securities

Temporary investments, which include obligations of Canadian chartered banks and other short-term investments, are recorded at cost. Marketable securities, which include debentures and bonds issued by the Province of Ontario and Ontario Hydro, are recorded at cost which was \$51 million at March 31, 1979 (1978 \$82 million). The market value of these securities was \$48 million at March 31, 1979 (1978 \$80 million).

2. Advances to Ontario Hydro

	1979	1978
Secured by bonds	\$3,568	\$2,901
Nuclear power generating station—Pickering	5	25
	<u>\$3,573</u>	<u>\$2,926</u>

The Province, in addition to guaranteeing Ontario Hydro debt obligations, has issued U.S. dollar debentures on behalf of Ontario Hydro. The proceeds have been advanced to Ontario Hydro in exchange for U.S. dollar bonds with the same terms and conditions as the debentures of the Province. These borrowing and lending transactions, which fall outside the Province's own budget framework, increased the Province's level of non-budgetary transactions, cash requirements and debt transactions by \$667 million (1978 \$392 million). In addition, the interest payments related to such borrowing and lending transactions increased the level of budgetary revenue and budgetary expenditure by \$244 million (1978 \$209 million).

The Province, by agreement with Ontario Hydro and Atomic Energy of Canada Limited, contributed \$100 million to the capital cost of the Pickering nuclear power generating plant and under the terms of a thirty year agreement receives payments based on the net operational advantages of the plant. These payments, which have amounted to \$95 million, have been applied entirely to reduce the advance.

3. Advances and Investments—Other Corporations, Boards and Commissions

	1979	1978
The Ontario Education Capital Aid Corporation	\$1,278	\$1,274
The Ontario Universities Capital Aid Corporation	1,204	1,232
Ontario Mortgage Corporation	630	758
Ontario Housing Corporation	352	349
Ontario Land Corporation	345	332
Development Corporations	198	179
Ontario Energy Corporation	121	100
Other	212	231
	<u>\$4,340</u>	<u>\$4,455</u>

The Ontario Education Capital Aid Corporation receives advances from the Province to purchase bonds or debentures issued by school boards for capital expansion programs. The securities held by the Corporation are the obligations of the individual school boards. However, under current support arrangements for local school boards, approved debt charges are subject to Provincial grants averaging 75%.

The Ontario Universities Capital Aid Corporation has received no new advances since March 1978 when the Province changed its capital financial support program from loans to grants for new construction in the post-secondary education sector. Under the former program the Corporation received advances from the Province to purchase bonds or debentures issued by provincial universities, colleges, the Art Gallery of Ontario, the Royal Ontario Museum and municipalities on behalf of public libraries, for approved capital construction projects. The securities held by the Corporation are the obligations of the issuing institutions. However, these institutions received annual budgetary grants in 1979 of \$116 million (1978 \$113 million) from the Province to cover the full amount of principal and interest due to the Corporation.

The Ontario Mortgage Corporation has used advances from the Province to provide primary and secondary mortgage financing for eligible persons. The Province paid subsidies amounting to \$2.5 million in 1979 (\$1.8 million in 1978) to the Corporation for certain loans made at interest rates lower than cost. Following a change in government policy, the Corporation sold \$109 million of its mortgage portfolio during the fiscal year and has made no new commitments. Further sales from the portfolio are scheduled for 1979-80.

Ontario Housing Corporation plans, constructs and manages residential housing projects. Financing is provided by the Province and Central Mortgage and Housing Corporation (a federal crown corporation). Operating subsidies are shared by the Province, Central Mortgage and Housing Corporation, and municipalities. The Province's share of the subsidy for the calendar year 1978 was \$91 million (1977 \$80 million). At June 30, 1978, the Ontario Student Housing Corporation was dissolved and all assets and liabilities, including an \$8.5 million liability for advances from the Province, were assumed by the Ontario Housing Corporation. Subsequent to the year-end certain assets and liabilities, were approved for transfer to the Ontario Land Corporation from the Ontario Housing Corporation retroactively effective from January 1, 1979. At March 31, 1979, the amount of the advances to be transferred from the Ontario Housing Corporation account to the Ontario Land Corporation account is approximately \$160 million.

The Ontario Land Corporation was established in 1974 to assemble land for new communities and industrial parks. In 1978 the Corporation's objects were broadened to include land development. In this connection, and as described above, certain assets of Ontario Housing Corporation including land leases, mortgages, agreements for sale and lands scheduled for residential, industrial and commercial development, were transferred along with related liabilities to the Ontario Land Corporation. In addition the Province discontinued its practice, effective October 1, 1978, of charging the Corporation interest on outstanding advances used to finance land holdings.

Ontario Development Corporation and the associated Eastern Ontario Development Corporation and Northern Ontario Development Corporation provide loans and arrange for provincial guarantees of bank loans to qualified enterprises. The Province has purchased an equity of \$7 million and has advanced all funding for the lending programs of the corporations. Through its budgetary expenditures, the Province also transfers to the corporations an amount to defray the costs of all administrative expenses, certain loan forgiveness, honouring guarantees, and writing off loans and losses due to the corporations' lending rates being lower than their borrowing rates. In 1979 these transfers amounted to \$20.8 million (1978 \$21.7 million).

Ontario Energy Corporation was established in 1975 with a \$100 million equity investment by the Province to develop energy sources for Ontario through investment in energy exploration, development and production. The Corporation's initial major involvement was a 5% equity position in Syncrude Canada Ltd. which was sold during 1978 for \$160 million. The Corporation has also been participating in the research aspects of the Polar Gas Project which is studying the movement of natural gas from the eastern high Arctic to southern markets. At March 31, 1979, the Corporation has invested \$12 million in the Polar Gas Project. Subsequent to March 31, 1979, the Province's investment in the Corporation was reduced to \$15 million equity through a repayment of advances and a repurchase of \$85 million of the share capital investment.

4. Investments in Water Treatment and Waste Control Facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of agreements with the municipalities. Certain of the agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in such funds (included in deposit, trust and reserve accounts) was \$37 million at March 31, 1979 (1978 \$41 million). Other agreements are for projects which are subject to service rate billings. The amount received from service rate billings in 1979 was \$57 million (1978 \$48 million) of which \$10.2 million (1978 \$8.3 million) was applied to reduce the investment account.

5. Other Loans and Investments

Included in other loans and investments are Ministry of Health capital construction loans to public hospitals amounting to \$236 million (1978 \$256 million). During the 1979 fiscal year, the Province made grants of \$19.1 million (1978 \$17.9 million) to assist public hos-

pitals in meeting principal and interest payments. No new loans have been made since March 1978 when the Ministry changed its public hospitals capital financial support program from loans to grants.

6. Pension Funds

	1979	1978
Public Service Superannuation Fund	\$1,551	\$1,324
Legislative Assembly Retirement Allowances Account	16	12
	<u>\$1,567</u>	<u>\$1,336</u>

The Province of Ontario maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less pension payments for both the Public Service Superannuation Fund and Legislative Assembly Retirement Allowances Account. The amounts recorded by the Province are essentially the sole assets of these pension plans.

Based on an actuarial report as at December 31, 1976, the Public Service Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of \$83 million, upon which an interest contribution of \$6 million is required to be credited annually in accordance with The Pension Benefits Act.
2. Residual unfunded liabilities of \$422 million which are required to be amortized by annual payments of \$49 million until January 1, 1990 and \$32 million on January 1, 1991 and 1992.

As at March 31, 1979, the Province had made all scheduled payments.

An actuarial review of the Legislative Assembly Retirement Allowances Account as at March 31, 1978, reported an unfunded liability of \$3 million. In accordance with the policy of the government in regard to this account, the full amount of the unfunded liability was contributed during the year.

Teachers' Superannuation Fund:

Through the budgetary expenditures of the Ministry of Education, the Province of Ontario makes annual contributions to the Teachers' Superannuation Fund (which is administered by the Teachers' Superannuation Commission) equal in amount to contributions by members. Further, the Province is committed to paying any deficiency in the Fund.

Based on an actuarial report as at December 31, 1975, the Teachers' Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of \$328 million upon which an interest contribution of \$23 million is required to be credited annually in accordance with The Pension Benefits Act.
2. Residual unfunded liabilities of \$1,069 million which are required to be amortized by annual payments of \$121 million until December 31, 1980, \$116 million from December 31, 1981 to December 31, 1989 and \$94 million on December 31, 1990.

As at March 31, 1979, the Province had made all scheduled payments.

7. Debentures and Notes

Years of Maturity, Mar. 31	1979 Payable in				
	Canadian Dollars	United States Dollars	Deutsche Marks	Total	Total
1979	\$	\$	\$	\$	\$ 129
1980	67	29	4	100	100
1981	45		7	52	52
1982	62	39	7	108	108
1983	122	125	7	254	254
1984	111	85	7	203	
1-5 years	407	278	32	717	643
6-10 years	1,861	99	13	1,973	1,759
11-15 years	3,379	44		3,423	2,900
16-20 years	6,022	281		6,303	5,531
21-25 years	1,764	684		2,448	2,371
26-30 years	152	2,203		2,355	1,894
31-35 years	37			37	25
36-40 years	25			25	13
	<u>\$13,647</u>	<u>\$ 3,589</u>	<u>\$ 45</u>	<u>\$17,281</u>	<u>\$15,136</u>

The U.S. dollar debenture liability is recorded at par with the Canadian dollar and with the exception of \$21 million, has been incurred on behalf of Ontario Hydro. As explained in Note 2, the Province holds U.S. dollar bonds of Ontario Hydro having the same terms and conditions as the debentures of the Province.

The Province has borrowings of 154 million Deutsche Marks recorded at \$45 million, the Canadian dollar equivalent at the time of issue. At March 31, 1979, the Canadian dollar equivalent was \$96 million.

8. Contingent Liabilities

The Province is guarantor of certain debt obligations as follows:

	1979	1978
Debentures, bonds and notes		
Ontario Hydro	\$6,634	\$6,114
Other Provincial crown agencies	10	10
	<u>\$6,644</u>	<u>\$6,124</u>
Bank loans guaranteed		
Provincial crown agencies	\$ 9	\$ 9
Corporations and individuals through various government programs	81	79
	<u>\$ 90</u>	<u>\$ 88</u>
	<u>\$6,734</u>	<u>\$6,212</u>

9. Long-Term Leases

The Province has long-term lease commitments for accommodation amounting to \$164 million to 1984 and an additional \$117 million for years beyond 1984. The lease payments made in 1978-79 amounted to \$47 million.

10. Economic Stimulation

On April 10, 1978, the government announced a reduction in retail sales tax rates of three percentage points for a period of six months to stimulate consumption. It was estimated that retail sales tax revenues would be reduced by \$433 million. The Government of Canada has contributed two-thirds of the estimated cost of the tax reduction.

11. Change in Accounting Treatment and Comparative Figures

In the current year, the Province changed its practice of allocating the annual contributions in respect of the unfunded liabilities of the Public Service Superannuation Fund. Previously, such payments were included in their entirety in the amount reported for the

Ministry of Government Services in the Statement of Budgetary Expenditure. Of the total unfunded liability payments into the Fund which amounted to \$55 million in the current year, approximately \$51 million was allocated to all ministries in the Statement of Budgetary Expenditure. The allocation of this \$51 million had no effect on the total of Budgetary Expenditure and the 1978 comparative amounts for the ministries were not restated. In a concurrent change in policy the Ministry of Government Services recovered the remaining \$4 million of the contributions from certain government agencies whose employees are members of the Public Service Superannuation Fund.

With the foregoing exception, 1978 comparative figures have been reclassified where necessary to conform with the 1979 financial statement presentation.

PROVINCIAL AUDITOR'S OPINION

I have examined the statement of assets and liabilities of the Province of Ontario as at March 31, 1979 and the statements of consolidated revenue fund, budgetary revenue, budgetary expenditure, non-budgetary transactions and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Province as at March 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies set out in the Summary of Significant Accounting Policies on page 12 of Volume 1 of the Public Accounts. Further, in my opinion, except for the changes in allocating and recovering the annual contributions in respect of the unfunded liabilities of the Public Service Superannuation Fund as referred to in Note 11 to the financial statements, such stated accounting policies have been applied on a basis consistent with that of the preceding year.

In accordance with section 12 of The Audit Act, 1977, a report will be made to the Legislative Assembly.

A large, stylized handwritten signature in dark ink, which appears to read "F. N. Scott". The signature is written in a cursive, flowing style with long, sweeping strokes.

F. N. SCOTT, F.C.A.,
Provincial Auditor.

Toronto, September 28, 1979.

EXHIBIT 2

MANAGEMENT BOARD ORDERS

AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER
DURING THE YEAR ENDED MARCH 31, 1979

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Office of The Lieutenant Governor			
Feb. 6, 1979	Office of The Lieutenant Governor Program: Office of The Lieutenant Governor	2,600	2,254
		2,600	2,254
Management Board of Cabinet			
Mar. 27, 1979	Management Audit Program: Operational Review	7,850	—
Apr. 10, 1979	Employee Relations Program: Staff Relations	22,000	9,196
Apr. 10, 1979	Government Personnel Services Program: French Language Services	25,000	—
Apr. 10, 1979	Personnel Advertising Services	60,000	47,884
		114,850	57,080
Ministry of Government Services			
Mar. 6, 1979	Ministry Administration Program: Main Office	6,600	6,011
Mar. 6, 1979	Financial Services	31,100	—
Nov. 14, 1978	Supply and Office Services	142,000	73,277
Mar. 6, 1979	Supply and Office Services	22,900	—
Mar. 27, 1979	Provision of Accommodation Program: Leasing	883,300	818,080
Mar. 13, 1979	Real Property Acquisition	915,200	890,122
Apr. 10, 1979	Real Property Acquisition	165,000	—
Mar. 13, 1979	Accommodation Alterations	250,000	173,486
Mar. 6, 1979	Real Property Management	53,400	38,569
Nov. 14, 1978	Supply and Services Program: Program Administration	103,000	—
Mar. 6, 1979	Supply Administration	54,600	33,501
Mar. 6, 1979	Printing and Stationery Services	31,000	—
Mar. 6, 1979	Collection Services	2,200	—
Mar. 6, 1979	Vehicle Repair and Trucking Services	27,200	—
Mar. 6, 1979	Government Mail Services	11,300	—
Mar. 6, 1979	Records Centre	19,700	15,481
Mar. 6, 1979	Legislative Services	29,700	—
Mar. 6, 1979	Employee Benefits	724,000	—
Mar. 6, 1979	Insurance and Risk Management	3,500	—
Mar. 6, 1979	Protocol Services	52,500	52,188
Mar. 6, 1979	Employee Health Services	1,400	—

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Government Services (cont'd)			
Mar. 6, 1979	Employee Advisory Services	5,500	—
Mar. 6, 1979	Actuarial Services	3,900	—
		3,539,000	2,100,715
Ministry of Northern Affairs			
	Ministry Administration Program:		
Feb. 14, 1979	Main Office	150,000	143,153
Feb. 14, 1979	Regional and Community Relations	300,000	285,952
	Regional Priorities and Development Program:		
Mar. 27, 1979	Agricultural Development	100,000	96,216
		550,000	525,321
Ministry of Revenue			
	Ministry Administration Program:		
Apr. 3, 1979	Analysis, Research and Planning	7,600	—
Apr. 3, 1979	Legal Services	33,800	29,019
Mar. 27, 1979	Audit Services	12,700	3,989
Mar. 27, 1979	Financial Services	65,400	52,083
Apr. 3, 1979	Supply and Office Services	81,400	—
Apr. 3, 1979	Personnel Service	17,800	—
Apr. 3, 1979	Systems Development Services	20,000	17,655
	Administration of Taxes Program:		
Apr. 3, 1979	Gasoline Tax and Other Taxes	82,700	—
	Municipal Assessment Program:		
Apr. 3, 1979	Administration	97,100	91,834
		418,500	194,580
Ministry of Intergovernmental Affairs			
	Ministry Administration Program:		
Apr. 3, 1979	Main Office	124,653	89,033
	Intergovernmental Affairs Program:		
Apr. 10, 1979	Intergovernmental Affairs	8,000	2,144
		132,653	91,177
Justice Policy			
	Justice Policy Program:		
Apr. 3, 1979	Justice Policy	81,279	77,060
		81,279	77,060

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of The Attorney General			
Mar. 6, 1979	Law Officer of the Crown Program: Attorney General	15,000	2,732
Apr. 10, 1979	Administrative Services Program: Main Office	449,600	421,827
Mar. 6, 1979	Guardian and Trustee Services Program: Public Trustee	40,000	40,000
Apr. 10, 1979	Public Trustee	50,000	46,710
Mar. 6, 1979	Supreme Court Accountant	25,000	11,650
Mar. 6, 1979	Crown Legal Services Program: Criminal Law Division	830,000	641,471
Mar. 6, 1979	Legislative Counsel Services Program: Legislative Counsel Services	80,000	57,313
Mar. 6, 1979	Courts Administration Program: Supreme Court of Ontario	435,000	346,470
Mar. 6, 1979	County and District Courts	1,020,000	995,687
Mar. 6, 1979	Small Claims Courts	484,000	480,849
Mar. 6, 1979	Provincial Courts	1,295,000	971,738
Mar. 6, 1979	Administrative Tribunals Program: Ontario Municipal Board	105,000	91,427
		4,828,600	4,107,874
Ministry of Consumer and Commercial Relations			
Apr. 10, 1979	Ministry Administration Program: Financial Services	15,000	1,801
Apr. 10, 1979	Supplies and Office Services	39,300	12,502
Apr. 10, 1979	Information Services	290,900	224,832
Mar. 13, 1979	Analysis, Research and Planning	167,000	158,759
Apr. 10, 1979	Commercial Standards Program: Pension Plans	33,900	25,603
Apr. 10, 1979	Financial Institutions	56,000	35,455
Apr. 10, 1979	Business Practices	149,800	125,670
Apr. 10, 1979	Commercial Registration Appeal Tribunal	3,000	—
Apr. 10, 1979	Technical Standards Program: Pressure Vessels	17,000	15,506
Apr. 10, 1979	Elevating Devices	18,000	—
Apr. 10, 1979	Property Rights Program: Program Administration	41,000	29,281
Apr. 10, 1979	Registrar General Program: Registrar General	30,000	29,286
Mar. 27, 1979	Rent Review Program: Administration	233,500	194,596
Mar. 27, 1979	Operations	521,300	407,440
		1,615,700	1,260,731
Ministry of Correctional Services			
Mar. 6, 1979	Ministry Administration Program: Main Office	37,000	34,701

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Correctional Services (cont'd)			
Mar. 6, 1979	Personnel Services	95,400	49,934
Mar. 6, 1979	Information Services	7,000	—
Institutional Program:			
Mar. 6, 1979	Care, Treatment and Training	3,917,600	3,849,750
Community Program:			
Mar. 6, 1979	Program Administration	68,300	31,907
Mar. 6, 1979	Probation and Parole Services	68,300	53,337
Jan. 30, 1979	Community Resource Centre Services	803,000	802,932
		4,996,600	4,822,561
Ministry of The Solicitor General			
Ministry Administration Program:			
Apr. 3, 1979	Main Office	45,000	44,849
Apr. 3, 1979	Supply and Office Services	17,000	—
Apr. 3, 1979	Analysis, Research and Planning	50,000	46,998
Apr. 3, 1979	Legal Services	12,000	5,192
Public Safety Program:			
Apr. 3, 1979	Centre of Forensic Sciences	57,000	—
Apr. 3, 1979	Fire Safety Services	68,000	65,858
Apr. 3, 1979	Coroners' Investigations and Inquests	177,000	—
Supervision of Police Forces Program:			
Apr. 3, 1979	Ontario Police Arbitration Commission ..	2,000	831
Management and Support Services Program:			
Apr. 3, 1979	Office of The Commissioner	11,000	—
Apr. 3, 1979	Planning and Research	104,000	—
Apr. 3, 1979	Quartermaster Stores	280,000	122,408
Operations Program:			
Apr. 3, 1979	Special Services	1,265,000	1,161,047
Apr. 3, 1979	Law Enforcement	4,116,000	4,013,863
Apr. 3, 1979	Registration	300,000	257,651
Apr. 3, 1979	Ontario Provincial Police Auxiliary	10,000	6,250
Apr. 3, 1979	Community Services	10,000	6,564
		6,524,000	5,731,511
Ministry of Agriculture and Food			
Ministry Administration Program:			
Apr. 10, 1979	Financial Services	22,000	16,832
Apr. 10, 1979	Supply and Office Services	130,000	127,106
Apr. 10, 1979	Information Services	23,000	447
Apr. 10, 1979	Analysis and Planning	19,000	13,275
Apr. 10, 1979	Legal Services	7,000	4,900
Agricultural Production Program:			
Apr. 10, 1979	Advisory Services	403,000	403,000
Apr. 17, 1979	Advisory Services	235,000	231,845
Apr. 10, 1979	Crop Insurance	60,000	—
Rural Development Program:			
Apr. 10, 1979	Administration	24,000	10,991
Agricultural Marketing Program:			
Apr. 10, 1979	Administration	9,000	1,928

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Agriculture and Food (cont'd)			
	Agricultural Education and Research Program:		
Apr. 10, 1979	Administration	4,500	—
Apr. 10, 1979	Research	25,000	1,034
Apr. 10, 1979	Ontario Agricultural Museum	44,000	9,251
		1,005,500	820,609
Ministry of Energy			
	Regulatory Affairs Program:		
Apr. 10, 1979	Program Administration	25,000	14,892
		25,000	14,892
Ministry of The Environment			
	Ministry Administration Program:		
Apr. 10, 1979	Financial Services	50,000	25,828
Mar. 13, 1979	Analysis, Research and Planning	47,000	37,577
Mar. 13, 1979	Legal Services	17,000	5,411
Mar. 13, 1979	Audit Services	9,000	2,929
	Environmental Assessment and Planning Program:		
Apr. 10, 1979	Environmental Assessment Board	45,000	44,963
	Environmental Control Program:		
Apr. 10, 1979	Program Administration	25,000	17,837
Apr. 10, 1979	Laboratory and Technical Support	250,000	108,468
	Resource Recovery Program:		
Apr. 10, 1979	Waste Utilization	423,000	—
		866,000	243,013
Ministry of Industry and Tourism			
	Ministry Administration Program:		
Mar. 27, 1979	Main Office	58,000	57,961
Mar. 27, 1979	Financial Services	79,000	79,000
Apr. 3, 1979	Financial Services	20,000	18,337
Mar. 27, 1979	Supply and Office Services	61,000	56,265
Mar. 27, 1979	Personnel Services	13,000	12,639
Mar. 27, 1979	Information Services	6,000	5,478
Mar. 27, 1979	Audit Services	14,000	6,729
	Industry and Trade Development Program:		
Apr. 3, 1979	Domestic Industry Development	574,000	539,822
Mar. 27, 1979	Ontario House	46,000	46,000
Apr. 3, 1979	Ontario House	228,000	207,072
Apr. 3, 1979	International Industry and Trade Development	355,000	339,745
	Tourism Development Program:		
Apr. 3, 1979	Tourism Marketing Development	375,000	316,429
Mar. 27, 1979	Tourism Field Operations	17,000	17,000
Apr. 3, 1979	Tourism Field Operations	8,000	7,053
	Small Business Development Program:		
Mar. 27, 1979	Ontario Operations	26,000	—

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Industry and Tourism (cont'd)			
Mar. 6, 1979	Ontario Place Corporation Program:		
	Ontario Place Operations	450,000	450,000
		2,330,000	2,159,530
Ministry of Labour			
	Ministry Administration Program:		
Apr. 3, 1979	Main Office	7,900	—
Apr. 3, 1979	Financial Services	20,800	—
Apr. 3, 1979	Supply and Office Services	124,500	120,004
	Industrial Relations Program:		
Apr. 3, 1979	Program Administration	24,200	—
	Occupational Health and Safety Program:		
Apr. 3, 1979	Construction Health and Safety	229,700	170,888
Apr. 3, 1979	Industrial Health and Safety	166,100	122,722
Apr. 3, 1979	Mining Health and Safety	59,600	—
Apr. 3, 1979	Mine Rescue Stations	80,400	61,468
	Employment Standards Program:		
Apr. 3, 1979	Employment Standards	123,000	88,628
	Ontario Manpower Co-ordinating Committee Program:		
Apr. 3, 1979	Ontario Manpower Co-ordinating Committee	10,000	—
	Labour Relations Board Program:		
Apr. 3, 1979	Labour Relations Board	259,000	210,038
		1,105,200	773,748
Ministry of Natural Resources			
	Ministry Administration Program:		
Mar. 6, 1979	Main Office	623,000	622,480
Mar. 27, 1979	Supply and Office Services	292,100	291,873
Mar. 27, 1979	Field Administration	806,000	805,542
	Land Management Program:		
Mar. 27, 1979	Air Service	895,000	785,973
Apr. 10, 1979	Land and Water Classification	167,000	—
	Land, Water and Mineral Title Administration	1,817,000	1,660,457
	Outdoor Recreation Program:		
Mar. 27, 1979	Fish and Wildlife	219,400	37,850
Mar. 27, 1979	St. Lawrence Parks Commission	81,000	68,050
	Resource Products Program:		
Mar. 27, 1979	Mineral Management	264,500	165,919
		5,165,000	4,438,144
Ministry of Transportation and Communications			
	Ministry Administration Program:		
Apr. 3, 1979	Main Office	580,000	490,007

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Transportation and Communications (cont'd)			
Apr. 3, 1979	Legal Services	110,000	101,361
Planning Research and Development Program:			
Apr. 10, 1979	Research and Development	635,000	587,654
Provincial Roads Program:			
Apr. 10, 1979	Program Administration	210,000	84,544
Apr. 10, 1979	Design	2,330,000	1,456,924
Apr. 10, 1979	Capital and Construction	3,500,000	3,252,201
Apr. 10, 1979	Maintenance	3,400,000	3,300,663
Provincial Transit Program:			
Apr. 10, 1979	Operations	4,000,000	3,995,297
Air Program:			
Apr. 10, 1979	Capital and Construction	200,000	111,088
Municipal Roads Program:			
Apr. 10, 1979	Capital, Construction and Maintenance ..	6,400,000	6,300,136
Communications Program:			
Mar. 6, 1979	Capital and Construction	560,000	559,963
		21,925,000	20,239,838
Ministry of Colleges and Universities			
Student Affairs Program:			
Mar. 27, 1979	Student Support	1,850,000	1,548,163
		1,850,000	1,548,163
Ministry of Community and Social Services			
Ministry Administration Program:			
Mar. 27, 1979	Main Office	52,700	12,980
Mar. 27, 1979	Legal Services	6,000	6,000
Apr. 24, 1979	Legal Services	28,200	26,032
Mar. 27, 1979	Audit Services	5,200	—
Social Resources Program:			
Mar. 27, 1979	Income Maintenance	546,800	—
Development Resources Program:			
Mar. 27, 1979	Facility Services	2,508,500	2,492,495
Children's Services Program:			
Mar. 27, 1979	Child Welfare and Health Services	1,048,600	—
		4,196,000	2,537,507
Ministry of Culture and Recreation			
Ministry Administration Program:			
Apr. 10, 1979	Main Office	95,000	68,953
Apr. 10, 1979	Supply and Office Services	15,000	—
Apr. 10, 1979	Personnel Services	18,000	2,128
Apr. 10, 1979	Information Services	18,000	—
Apr. 10, 1979	Legal Services	5,000	4,584
Apr. 10, 1979	Audit Services	17,000	13,287
Apr. 10, 1979	Field Services	100,000	87,710

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Culture and Recreation (cont'd)			
	Heritage Conservation Program:		
Apr. 10, 1979	Archives	35,000	28,999
Apr. 10, 1979	Heritage Administration	55,000	—
Apr. 10, 1979	Huron Historical Sites	18,000	—
	Arts Support Program:		
Apr. 10, 1979	Ontario Science Centre	100,000	10,927
	Citizenship and Multicultural Support Program:		
	Community Development for Native Peoples	156,056	102,235
Sept. 10, 1979	Translation Services	81,000	80,929
	Libraries and Community Information Program:		
Apr. 10, 1979	Library Services	12,000	—
Oct. 10, 1978	Experience '78	159,400	81,398
	Sports and Fitness Program:		
Apr. 10, 1979	Physical Fitness	12,000	—
		896,456	481,150
Ministry of Education			
	Ministry Administration Program:		
Feb. 14, 1979	Main Office	610,000	304,747
Apr. 10, 1979	Legal Services	4,200	4,035
	Education Program:		
	Educational Programs in the Developmental Centres Schools	546,300	494,922
Apr. 10, 1979	Professional Development	40,000	29,980
	Services to Education Program:		
Feb. 27, 1979	Education Relations Commission	60,000	60,000
Apr. 10, 1979	Education Relations Commission	28,000	24,496
Jan. 9, 1979	Provincial Schools Authority	3,000	—
Apr. 10, 1979	Teachers' Superannuation Commission ...	585,000	584,827
		1,876,500	1,503,007
Ministry of Health			
	Ministry Administration and Health Insurance Program:		
Mar. 27, 1979	Research	190,000	—
	Institutional Health Services Program:		
Mar. 27, 1979	Psychiatric Services	524,000	—
Mar. 27, 1979	Laboratory Services	13,000	7,654
		727,000	7,654
Total Management Board Orders		64,771,438	53,738,119

EXHIBIT 3

STATUTORY APPROPRIATIONS

AMOUNTS EXPENDED THEREUNDER
DURING THE YEAR ENDED MARCH 31, 1979

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Office of The Assembly	The Election Act	Expenditure	710,194
	Contribution to Legislative Assembly		
	Retirement Allowances Account	Expenditure	3,614,304
			4,324,498
Office of The Premier	Premier's Salary	Expenditure	25,498
Management Board of Cabinet	Minister's Salary	Expenditure	18,359
	Reserve for outstanding cheques	Charge	7,157
			25,516
Office of The Provincial Auditor	Provincial Auditor's Salary	Expenditure	53,242
Government Services	Minister's Salary	Expenditure	18,359
	Ministers without Portfolio Salaries	Expenditure	7,650
	Contract security deposits	Charge	94,645
	Effingham Park Expropriation Trust Account	Charge	20,941
	Reserve for outstanding cheques	Charge	1,856
	Government Stationery Account	Expenditure	6,978
	Employee Benefits (Government Contributions)	Expenditure	185,874
			336,303
Northern Affairs	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	4,661
			23,020
Revenue	Minister's Salary	Expenditure	18,359
	Reserve for outstanding cheques	Charge	97
	Contract security deposits — Retail Sales Tax	Charge	44,345
	Province of Ontario Savings Office Program	Expenditure	3,580,920
			3,643,721

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Treasury and Economics	Minister's Salary	Expenditure	18,359
	Reserve for outstanding cheques	Charge	979
	<i>Public Debt</i>		
	Interest on Ontario Securities		
	Public Issues		
	For general purposes	Expenditure	137,245,103
	On behalf of Ontario Hydro	Expenditure	244,434,496
	Non Public Issues		
	Canada Pension Plan Investment Fund	Expenditure	568,750,236
	Teachers' Superannuation Fund	Expenditure	210,985,390
	Ontario Municipal Employees'		
	Retirement Fund	Expenditure	105,399,582
	Other	Expenditure	21,235,909
	Interest on Public Service		
	Superannuation Fund	Expenditure	112,464,926
	Interest on Superannuation Adjustment Fund	Expenditure	18,019,967
	Interest on Province of Ontario		
	Savings Office Deposits	Expenditure	31,566,858
	Other interest, exchange, discount and commission	Expenditure	24,176,499
	<i>Development Loans</i>		
	The Ontario Education Capital Aid Corporation	Disbursement	70,922,000
	The Ontario Municipal Improvement Corporation	Disbursement	1,125,000
	<i>Other Loans and Advances</i>		
	Ontario Hydro, The Power Corporation Act	Disbursement	750,000,000
	<i>Pension Funds, Deposit, Trust, and Reserve Accounts</i>		
	Payments from Public Service Superannuation Fund	Charge	70,668,048
	Payments from Superannuation Adjustment Fund:		
	Public Service Superannuation Plan	Charge	2,606,036
	Teachers' Superannuation Plan	Charge	2,738,105
	Retirement Pension Plan of Ryerson		
	Polytechnical Institute	Charge	12,703
	Caucus Employees Retirement Plan	Charge	3,407
	Payments from Legislative Assembly		
	Retirement Allowances Account	Charge	686,435
	Other	Charge	1,775,471
	Debt Transactions	Retirements of Loans	193,635,698
			2,568,471,207
Intergovern- mental Affairs	Minister's Salary	Expenditure	11,504
	Parliamentary Assistant's Salary	Expenditure	5,029
	<i>Payments in lieu of taxes</i>		
	The Whirlpool Rapids Bridge Act	Expenditure	36,000
	The Lewiston-Queenston Bridge Act	Expenditure	20,000

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Intergovern- mental Affairs (Cont'd)	Loans to municipalities under The Shoreline Property Assistance Act, 1973	Disbursement	570,600
			643,133
Justice Policy	Minister's Salary	Expenditure	11,505
Attorney General	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	5,100
	Reserve for outstanding cheques	Charge	17,144
	Proceedings against The Crown Act	Expenditure	17,409
	Allowances to Supreme Court Judges	Expenditure	179,179
	Allowances to Judges	Expenditure	393,761
			630,952
Consumer and Commercial Relations	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	4,658
	Reserve for outstanding cheques	Charge	28,032
	Payments from The Motor Vehicle Accident Claims Fund	Charge	19,093,952
	Security Bond Forfeitures:		
	The Consumer Protection Act	Charge	55,000
	The Motor Vehicle Dealers Act	Charge	65,000
	The Real Estate and Business Brokers Act	Charge	95,677
	The Travel Industry Act	Charge	85,642
	Canada Labour Safety Code	Charge	50,000
	Fees under The Vital Statistics Act	Expenditure	495
			19,496,815
Correctional Services	Minister's Salary	Expenditure	18,359
	Unclaimed monies	Charge	187
	Reserve for outstanding cheques	Charge	8,060
	Bequests and scholarships	Charge	84
			26,690
Solicitor General	Minister's Salary	Expenditure	7,249
	Hearings under The Police Act	Expenditure	46,177
	Payments under The Ministry of Treasury, Economics and Intergovernmental Affairs Act	Expenditure	38,257
	Payments under The Police Act, Sec. 47(2)A	Expenditure	28,363
			120,046

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Resources Development Policy	Minister's Salary	Expenditure	18,359
Agriculture and Food	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	5,100
	Reserve for outstanding cheques	Charge	2,422
	Payment of Guarantees	Expenditure	201,798
	Subsidy payments to The Ontario Crop Insurance Fund	Expenditure	8,526,028
	Tile Drainage Debentures	Disbursement	17,870,700
	Ontario Agricultural Museum Trust Fund	Charge	16,667
			26,641,074
Energy	Minister's Salary	Expenditure	6,855
	Parliamentary Assistant's Salary	Expenditure	427
			7,282
Environment	Minister's Salary	Expenditure	18,359
	Reserve for outstanding cheques	Charge	1,409
	Payments from Provincial Lottery Trust Fund	Charge	1,911,352
	Reserve Fund for Renewals, Replacements and Contingencies	Charge	1,193,365
	Sinking Fund for Recovery of the Cost of Capital Assets	Charge	174,890
			3,299,375
Housing	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	5,100
	The Ontario Land Corporation Act, 1974	Disbursement	14,750,000
	Payments from Ontario Mortgage Corporation Deposit Account	Charge	3,476,268
			18,249,727
Industry and Tourism	Minister's Salary	Expenditure	17,240
	Parliamentary Assistant's Salary	Expenditure	5,100
	Reserve for outstanding cheques	Charge	985
	Ontario Development Corporation Loan Program	Disbursement	16,300,000
	Northern Ontario Development Corporation Loan Program	Disbursement	8,450,000
	Eastern Ontario Development Corporation Loan Program	Disbursement	15,250,000
			40,023,325

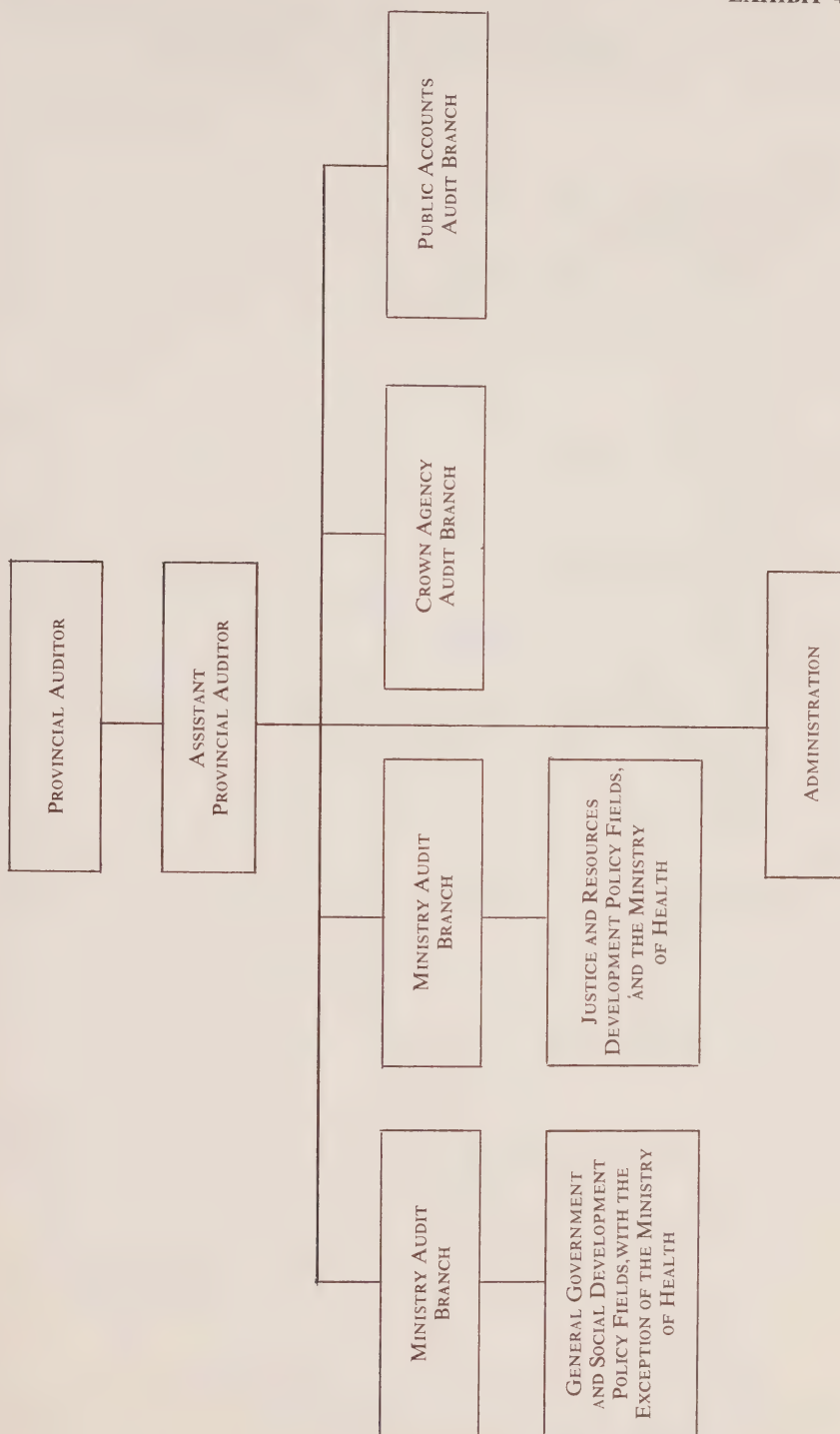
MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Labour	Minister's Salary	Expenditure	18,359
	Payments from Provincial Lottery Trust Fund	Charge	1,500,000
	Canada Labour Safety Code	Charge	25,000
	Employment Standards		
	Unclaimed vacation-with-pay	Charge	70
	Unclaimed wages	Charge	91,635
			1,635,064
Natural Resources	Minister's Salary	Expenditure	18,260
	Parliamentary Assistant's Salary	Expenditure	5,100
	Contract security deposits	Charge	371,378
	Reserve for outstanding cheques	Charge	23,854
	Pits and Quarries security deposits	Charge	280,179
	Forest Management security deposits	Charge	24,120
	Grants in accordance with The Algonquin Forestry Authority Act	Expenditure	20,000
			742,891
Transportation and Communica- tions	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	5,100
	City of Niagara Falls — Compensation for loss of Taxes	Expenditure	12,000
	Construction trust account	Charge	485,580
	Contract security deposits	Charge	306,570
			827,609
Social Development Policy	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	5,100
			23,459
Colleges and Universities	Minister's Salary	Expenditure	6,855
	Reserve for outstanding cheques	Charge	3,025
	The Private Vocational Schools Act, 1974	Charge	15,273
	Queen Elizabeth II Ontario Scholarship Fund	Charge	22,069
			47,222
Community and Social Services	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	1,904
	Bequests and scholarships	Charge	8,475
			28,738

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Culture and Recreation	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	5,023
	Contract security deposits — Athletics Commissioner	Charge	12,500
	Ontario Olympic Lottery Sports Fund	Charge	1,268,379
	Loto Canada — Trust Account	Charge	4,945,549
	Reserve for outstanding cheques	Charge	189
			6,249,999
Education	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	5,100
	Student Aid Loans Write-off	Expenditure	2,154
	Bequests and scholarships	Charge	28,359
	Ontario Education Association — Elementary Teachers' Loan Fund	Charge	206
	Teachers' Superannuation Fund	Expenditure	120,360,707
	Superannuation Adjustment Fund	Expenditure	22,203,413
	Superannuation Adjustment Benefits	Expenditure	24,312,235
			166,930,533
Health	Minister's Salary	Expenditure	18,359
	Parliamentary Assistant's Salary	Expenditure	5,100
	Reserve for outstanding cheques	Charge	29,885
	Government Pharmacy	Expenditure	308,328
	Provincial Lottery Trust Fund	Charge	7,998,390
	Extended Care — nursing home closure	Charge	1,403
			8,361,465
Total Statutory Payments			2,870,918,268

Summary of Statutory Payments

	\$
Budgetary Expenditure	1,659,665,821
Disbursements	895,238,300
Charges	122,378,449
Retirements of Loans	193,635,698
	2,870,918,268

EXHIBIT 4

ORGANIZATION CHART
OFFICE OF THE PROVINCIAL AUDITOR

**OFFICE OF THE PROVINCIAL AUDITOR
MINISTRY AUDITS AND SPECIAL REVIEWS
Year Ended March 31, 1979**

(See Note)

MINISTRY AUDITS:

- Agriculture and Food
- Attorney General
- Community and Social Services
- Consumer and Commercial Relations
- Culture and Recreation
- Education
- Energy
- Environment
- Government Services
- Health
- Housing
- Industry and Tourism
- Intergovernmental Affairs
- Labour
- Management Board of Cabinet
- Northern Affairs
- Office of the Premier, Cabinet Office, Justice Policy, Resources Development
Policy and Social Development Policy
- Revenue
- Solicitor General
- Treasury and Economics

SPECIAL REVIEWS:

- Expenditure, Royal Commission on the Northern Environment, Ministry of
the Environment
- Funding of a Medical Clinic, Ministry of Health
- Waste Utilization activity of the Resource Recovery Program, Ministry of
the Environment
- Grant Payments for Transportation to the Lanark County Board of Educa-
tion, Ministry of Education
- Crop Insurance Program, The Crop Insurance Commission of Ontario
- Review of the Financial Statements and Budget, The Royal Ontario Museum
- Tourism Marketing Development activity of the Tourism Development
Program, Ministry of Industry and Tourism
- Grants for Adult and Apprentices' Training, Training in Business and In-
dustry, Training in Industry and Part Time Industrial Training, College
and Adult Education Support Program, Ministry of Colleges and
Universities
- Computer Control Evaluations — Various Ministries (6) and Agencies (2)

NOTE: In general, this listing includes audits completed between the date (Sep-
tember 29, 1978) of our 1977-78 Report and the date (September 28,

1979) of our 1978-79 Report. In all cases, at least a portion of the period covered by the audit fell within the year ended March 31, 1979.

**OFFICE OF THE PROVINCIAL AUDITOR
AGENCY OF THE CROWN AND CROWN CONTROLLED
CORPORATION AUDITS
Year ended March 31, 1979**

(See Note 1)

AGENCIES OF THE CROWN

- (i) Whose accounts the Provincial Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body.
 - Ontario Industrial Training Institute
 - *Ontario Land Corporation
 - *Ontario Mortgage Corporation
 - The Owen Sound Transportation Company, Limited (December 31, 1978)
 - Soldiers' Aid Commission
 - Star Transfer Limited (December 31, 1978)
- (ii) Whose accounts are audited by the Provincial Auditor pursuant to appointment under any Act or by the Lieutenant Governor in Council.
 - *The Accountant of the Supreme Court of Ontario
 - Agricultural Rehabilitation and Development Directorate of Ontario
 - Alcoholism and Drug Addiction Research Foundation
 - *Algonquin Forestry Authority
 - The Centennial Centre of Science and Technology
 - Commission on Election Contributions and Expenses
 - *The Crop Insurance Commission of Ontario
 - *Eastern Ontario Development Corporation
 - *Farm Income Stabilization Commission of Ontario
 - The Fund for Milk and Cream Producers, The Milk Commission of Ontario
 - The John Graves Simcoe Memorial Foundation
 - The Law Society of Upper Canada, Legal Aid Fund
 - *Liquor Control Board of Ontario
 - The McMichael Canadian Collection
 - *The Niagara Parks Commission (October 31, 1978)
 - *Northern Ontario Development Corporation
 - *North Pickering Development Corporation
 - Office of the Assembly
 - *Office of the Official Guardian
 - Office of the Ombudsman
 - Ontario Agricultural Museum
 - The Ontario Cancer Treatment and Research Foundation
 - Ontario Deposit Insurance Corporation (December 31, 1978)
 - *Ontario Development Corporation
 - *The Ontario Education Capital Aid Corporation
 - The Ontario Educational Communications Authority
 - *Ontario Food Terminal Board

The Ontario Heritage Foundation

*Ontario Housing Corporation (December 31, 1978)

*The Ontario Junior Farmer Establishment Loan Corporation

*Ontario Lottery Corporation

*The Ontario Municipal Improvement Corporation

*Ontario Northland Transportation Commission (December 31, 1978)

*Ontario Place Corporation

The Ontario Producers, Processors, Distributors and Consumers Food Council (January 31, 1979) (Note 3)

Ontario Racing Commission

*Ontario Stock Yards Board (June 30, 1978)

*Ontario Student Housing Corporation (June 30, 1978) (Note 2)

The Ontario Telephone Development Corporation

*The Ontario Universities Capital Aid Corporation

Pension Commission of Ontario

Province of Ontario Council for the Arts

Public Service Superannuation Fund

*The Public Trustee of the Province of Ontario

The Sheridan Park Corporation

The St. Lawrence Parks Commission

Superannuation Adjustment Fund

(iii) Whose accounts are audited by an auditor, other than the Provincial Auditor, appointed by the Lieutenant Governor in Council.

*Workmen's Compensation Board (December 31, 1978)

(iv) The audit of whose accounts the Provincial Auditor is required to direct or review, or in respect of which the auditor's report and working papers used in the preparation of the auditor's statement are required to be made available to the Provincial Auditor under the agency's governing Act.

*Toronto Area Transit Operating Authority

CROWN CONTROLLED CORPORATIONS, whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

Board of the Community Psychiatric Hospital, Guelph

The Board of Governors of The Ontario Institute for Studies in Education (April 30, 1979)

Clarke Institute of Psychiatry

Minaki Lodge Resort Ltd.

Minaki Development Company Limited

The Ontario Cancer Institute

Ontario Cream Producers' Marketing Board (September 30, 1978)

*Ontario Energy Corporation (December 31, 1978)

Ontario Historical Studies Series

*Ontario Hydro (December 31, 1978)

Ontario Mental Health Foundation

- The Ontario Milk Marketing Board (October 31, 1978)
Ontario Municipal Employees Retirement Board (December 31, 1978)
Ontario Research Foundation (December 31, 1978)
Ontario Share and Deposit Insurance Corporation (December 31, 1978)
*The Ontario Transportation Development Corporation (December 31, 1978)
The Royal Ontario Museum (June 30, 1979)
Thunder Bay Ski Jumps Limited
*Urban Transportation Development Corporation Ltd. (December 31, 1978)

*Audited financial statements reproduced in Volume 2 of the 1978-79 Public Accounts.

NOTE 1: In all cases, the audit covered the fiscal period of the Agency or Corporation concerned. In most instances the fiscal period ended on March 31, 1979. Where the fiscal period ended on a date other than March 31, 1979, such date has been indicated in parenthesis.

NOTE 2: Pursuant to The Ontario Student Housing Corporation Act, 1978, this Corporation was dissolved on June 30, 1978, and all its property, rights and obligations were vested in Ontario Housing Corporation on that date.

NOTE 3: Pursuant to The Ministry of Agriculture and Food Statute Law Amendment and Repeal Act, 1978, the Food Council was dissolved on January 31, 1979, and its functions integrated with the Ministry of Agriculture and Food.

(See Note)

STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS
AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT

REPORT	SECTION	CAPTION	
1976-77	* 59	Ministry of Agriculture and Food Ontario Beef Calf Income Stabilization Program.	Substantially implemented.
1977-78	* 48	Additional monitoring of research costs recommended.	Implemented.
1975-76	* 93	Ministry of Colleges and Universities Venture capital program.	Implemented.
1977-78	* 49	Observations re Ontario Student Assistance Program.	In process of implementation.
1977-78	* 50	Ministry of Community and Social Services Improved controls over transfer payments recommended.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1977-78	51	Ministry of Consumer and Commercial Relations Non-compliance with relevant legislation.	Lotteries Branch—Status to be verified at time of next audit in this area. Insurance Division—Implemented. Status to be verified at time of next audit in this area.
1977-78	52	Deficiencies noted re boiler inspections.	
1976-77	* 68	Ministry of Correctional Services Lack of formal authority for arrangements under temporary absence program.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1977-78	* 53	Payments to municipalities for conveyance of prisoners questioned.	Implemented.
1977-78	* 54	Cost savings recommended re conferences.	Implemented.
1976-77	* 69	Ministry of Culture and Recreation Observations re inventories of saleable merchandise at historical sites.	Implemented.

STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS CONTAINED IN THE PROVINCIAL AUDITOR'S PREVIOUS ANNUAL REPORTS—CONTINUED

(See Note)

		STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT	
REPORT	SECTION	CAPTION	
1977-78	* 56	Administrative improvements recommended re Wintario Grants.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1977-78	* 57	Ministry of Education Allocation of printing services questioned.	Substantially implemented.
1976-77	* 75	Ministry of The Environment Board members' fees and expenses.	Implemented.
1976-77	* 77	Improved procedures recommended re Provincial sewage works project.	Implemented.
1977-78	* 58	Need for timely billing procedures.	Implemented.
1977-78	* 59	Ministry of Government Services Home Owner Employee Relocation Plan.	Substantially implemented.
1977-78	* 61	Compliance with established tendering procedures recommended.	Implemented.
1977-78	* 63	Improper distribution of expenditure in Volume 1 of 1976-77 Public Accounts.	Implemented.
1975-76	* 109	Ministry of Health Incomplete control over industrial therapy workshop expenditures, Kingston Psychiatric Hospital.	Implemented.
1975-76	* 110	Insufficient monitoring of service verification letter program, Ontario Health Insurance Plan.	Substantially implemented.
1975-76	* 116	Substantial payments to insured persons re psychotherapy services, Ontario Health Insurance Plan.	Ministry proposal to limit the frequency and duration of psychotherapy services was not approved by Cabinet.
1976-77	* 82	Apparent shortage in laundry and linen inventory, Queen Street Mental Health Centre.	Substantially implemented.

(See Note)

REPORT	SECTION	CAPTION	STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
1976-77	* 83	Control evaluation of computer systems, Ontario Health Insurance Plan.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1976-77	* 84	Delinquent settlements with Federal hospitals, Ontario Health Insurance Plan.	Substantially implemented.
1977-78	* 64	Lost cash discounts on purchases.	Implemented.
1977-78	66	Improved collection procedures recommended re bursaries recoverable.	Status to be verified at time of next audit in this area.
1977-78	67	Improved verification procedures recommended re partially and fully assisted participants, Ontario Health Insurance Plan.	Status to be verified at time of next audit in this area.
1975-76	* 117	Ministry of Industry and Tourism Waiver of licensing requirements.	Implemented.
1977-78	* 68	Ministry of Labour Observations and recommendations re the Ontario Human Rights Commission.	Implemented.
1976-77	* 91	Ministry of Natural Resources Administrative improvements warranted.	Implemented.
1976-77	* 94	Ministry of Revenue Evaluation of the effectiveness of the land speculation tax self-assessment tax system.	No longer applicable—The Land Speculation Tax Act, 1974 was repealed by The Land Speculation Tax Repeal Act, 1978, effective October 24, 1978.
1977-78	* 71	Ministry of The Solicitor General Apparent under utilization of motor vehicles, Ontario Police Commission.	Substantially implemented.
1977-78	* 73	Improved payment procedures recommended.	Implemented.
1977-78	74	Recommendation re Ontario Police College Library Fund.	Status to be verified at time of next audit in this area.

**STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS CONTAINED
IN THE PROVINCIAL AUDITOR'S PREVIOUS ANNUAL REPORTS—CONTINUED**

(See Note)

REPORT	SECTION	CAPTION	STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
		Ministry of Transportation and Communications	
1976-77	* 98	Control evaluation of computer systems, Registrar of Motor Vehicles.	Implemented.
1977-78	76	Deficiencies in internal control relating to accounts receivable.	Status to be verified at time of next audit in this area.
1977-78	* 77	Improved cost controls recommended re consulting contracts.	Not considered practicable by Ministry, as explained at February 20, 1979 Standing Public Accounts Committee meeting.
		Ministry of Treasury, Economics and Intergovernmental Affairs	
1977-78	* 78	Observations and recommendations re the Ontario Youth Employment Program, 1977.	Substantially implemented.
		Management Board of Cabinet	
1976-77	* 89	Establishment of policy recommended re remote data processing facilities.	In process of implementation at time of our most recent review of this area in July 1979.
		Crown Agencies	
1977-78	93	Comments on leased vehicles, Liquor Licence Board.	Status to be verified at time of next audit in this area.
1977-78	* 94	Legislative printing contract, Office of the Assembly.	Implemented.
1977-78	* 95	Recommendations made relating to possible cost savings, Office of Chief Election Officer.	Implemented.
1977-78	* 96	Comments on use of vehicles, Office of the Ombudsman.	Implemented.
1977-78	* 97	Questionable need for certain office equipment, Office of the Ombudsman.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1977-78	* 98	Probable loss on acquisition of housing site, Ontario Housing Corporation.	Implemented.

(See Note)

REPORT	SECTION	CAPTION	STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT	
1977-78	*100	Mortgage instalments in arrears, The Ontario Junior Farmer Establishment Loan Corporation.	Implemented.	
1977-78	*101	Review of Management by Results Agreement, Ontario Racing Commission.	In process of implementation, per documentation tabled at February 19, 1979 meeting of the Standing Public Accounts Committee.	
1977-78	*102	Inefficient management of funds, Soldiers' Aid Commission.	Implemented.	
1977-78	*103	Improvements warranted in accounting for damaged merchandise, Star Transfer Limited.	Implemented.	
1977-78	*104	Need for improved bank reconciliation procedures, Workmen's Compensation Board.	Implemented.	

NOTE: This Exhibit provides the status of all suggested corrective action and recommendations which were:

- (a) considered unresolved per Exhibit 8 of the 1977-78 Auditor's Report,
- (b) contained in the body of the 1977-78 Auditor's Report.

* Considered resolved as at September 28, 1979, the date of this Report.

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY

EXHIBIT 8

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
July 10, 1975	4.	The Committee also recommends again most strongly that adequate guidelines be drawn up with respect to the use and security of information used and stored by the government computer service.	Per Exhibit 9 of the 1977-78 Report, Section 55-2-5 of the Manual of Administration includes general policies regarding the security of data in computer systems. Additionally, the Deputy Minister of Government Services supplied us with a status report describing recent changes and improvements which had been made in the security of information by the Computer Services Division of his ministry.
			We were also advised on August 1, 1978 by the then Secretary of Management Board of Cabinet that, in light of the work that was currently being carried out regarding the use and security of data, by both the Commission on Freedom of Information and Individual Privacy and the Commission of Inquiry into the Confidentiality of Health Records in Ontario, any revision of the administrative guidelines at that time would seem premature. However, the progress of both Commissions was being monitored by Management Board, and it was planned to make any necessary changes as soon as possible after their findings were announced.
			As at the date of preparation of this Exhibit, neither of these Commissions had issued a final report.
Dec. 14, 1976	10.	The Committee recommends that detailed regulations be developed setting out the criteria for the payment of grants to Universities and Colleges.	We note that no such regulations have been published as at the date of this Report. We also have no record of a reply being received to memoranda sent to the Deputy Minister on May 10, July 11 and September 6, 1979 requesting the current status of this recommendation.
Dec. 14, 1976	*12.	The Committee recommends that the Ministry review The Workmen's Compensation Act to determine if amendments are necessary to clarify administrative matters.	On May 23, 1979 the Deputy Minister of Labour advised us that: " there are several possible amendments to The Work-

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
		(See Note)	
Dec. 14, 1976	*16.	The Committee recommends that the Legislature appoint a Committee to study the function and the role of the Public Accounts Committee.	men's Compensation Act that would clarify certain administrative matters.
			"A final decision has not yet been made concerning the need for an amending Act during the calendar year 1979. However, whenever the Act is open for revision to benefit levels, careful consideration will be given to introducing the administrative amendments as well."
			Although no such Committee has been appointed by the Legislature, a subcommittee of the Standing Public Accounts Committee was formed during 1978 to deal with this subject.
			As a result of a subcommittee meeting on July 19, 1978, the Chairman (Mr. Reid) wrote to the Chairman of the Standing Procedural Affairs Committee, suggesting that:
			1) the Standing Public Accounts Committee be appointed for the duration of each Parliament rather than being required to be reconstituted at the beginning of each session, in order to assure Committee continuity and to save time, and
			2) the Report of the Provincial Auditor and the Public Accounts, once they are tabled in the Legislature, be referred automatically to the Standing Public Accounts Committee.
			These recommendations were subsequently adopted, and included as Standing Order No. 91 of the Legislative Assembly of Ontario.
			Additionally, the Chairman initiated a meeting of representatives of the various provincial Public Accounts Committees, which was held in St. John's, Newfoundland on August 14 and 15, 1979, to review matters of common concern.

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
March 29, 1977	2.	The Committee recommends that the Government should develop a plan for the future of Minaki Lodge and report to the House as soon as possible.	The Deputy Minister of Industry and Tourism wrote as follows on May 17, 1979: "In late June, 1978, Cabinet authorized the completion of Minaki Lodge dependent on the Minaki Board finding a private sector hotel/resort chain operator who will advise the Board on the construction of bedrooms and meeting rooms so that the completed Lodge is operationally practical. The same private sector company will operate the Lodge on behalf of the Government. "The Board of Directors has talked with every major Canadian hotel chain. Meetings have been held with five companies and negotiations leading to 'near' formal agreement have been held with two companies. "In one instance, the private sector company withdrew from negotiations. In the other instance, the Government withdrew from negotiations. "Negotiations are now going on with another major hotel chain."
March 29, 1977	*3.	The Committee recommends that every Ministry of the Government when presenting a submission to Cabinet for capital funding for a major project, such as Minaki Lodge, must fully develop a complete plan after a thorough investigation and the presentation should include all projected capital and operating costs as well as all related costs (i.e. hydro, roads, etc.).	Section 10-16 of the Ontario Manual of Administration, dealing with Capital Expenditure Evaluation, was issued on October 18, 1978. This section sets out procedures to be followed regarding proposed capital expenditures, with the purpose of ensuring that such expenditures are made in accordance with the principles of sound financial management and in the best long-term interest of the Government.
March 29, 1977	—	The Committee further recommends that the Government should explore the process for	The Deputy Minister of Industry and Tourism, on May 17, 1979, advised us as follows:

(See Note)

(See Note)

RECOMMENDATION #

DATE OF REPORT

STATUS AS AT DATE OF PREPARATION
OF 1978-79 AUDITOR'S REPORT

acquisition of property by the Development Corporations and examine the appropriateness of retaining ownership by the Development Corporations as compared to direct ownership by a Ministry or by an appropriate Crown Corporation.

" the Ministry and O.D.C. approached the Ministry of Government Services to determine if they would be willing to assume responsibility for Huronia and Northam Industrial Parks. Following study, M.G.S. replied that they would be willing to purchase portions presently leased by M.G.S. but felt they did not have the flexibility to undertake operation of portions leased to the private sector.

"It was then decided by the Ministry/O.D.C. that reliable 'hard' data needed to make a decision on disposition of the parks should be obtained through study by a disinterested party from the private sector. Terms of reference were developed, proposals requested and a study contract was signed with Woods, Gordon and Company in the week of May 14-18, 1979. The Report is expected to be completed in July or early August, 1979, recommending alternative possibilities e.g. privatize, involve municipalities, retain, or some combination thereof."

June 22, 1978

*—

The Committee recommends, regarding the Ontario Tax Credit System, that supporting documents should accompany the income tax form to indicate that the tax credits in fact are warranted. It is only in the area of tax credits as they relate to home shelter credits that receipts are not required.

On January 26, 1979, the Chairman of the Standing Public Accounts Committee was advised as follows by the Deputy Minister of Revenue:

"On the face of it, the Committee's recommendation is not unreasonable and it is technically feasible. There are, however, a number of disadvantages which have to be considered. The Ministry of Revenue and Revenue Canada, Taxation have studied the issue of mandatory receipts and our joint conclusion is that the disadvantages outweigh the advantages at the present time.

"In arriving at this conclusion, the main considerations were the following:

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
June 22, 1978	*—	As a result of its meetings dealing with the Royal Commission on Violence in the Communications Industry, the Committee recommends:	— an additional burden would be placed on municipalities and landlords in producing receipts. These receipts would have to be issued on a universal basis since it would be impossible for municipalities or landlords to distinguish those persons entitled to claim a property tax credit from persons who, for income or other reasons, were ineligible to claim. Municipalities would almost certainly demand reimbursement for extra costs incurred. Small landlords would have additional record-keeping requirements;
			— at a time when the provincial government is concerned with 'de-regulation' and the federal government is attempting to reduce the 'paper burden', implementation of the receipt recommendation would move us in exactly the opposite direction;
			— the cost of processing Ontario Tax Credit claims would be substantially increased if receipts were filed with returns; delays in processing caused by missing receipts and the need for manual processing and follow-ups with the taxfilers concerned would create backlogs in Revenue Canada, resulting in further delays and an increased number of refund enquiries."

Section 65-11 of the Ontario Manual of Administration, setting out specific guidelines for the administration of Royal Commissions, was issued on July 20, 1978. The extent to which each of the Committee's recommendations is embodied in this Section is summarized as follows:

1. The first part of this recommendation has been adopted as guideline 10 of Section 65-11. As to the second part of this recommendation, on April 27, 1979 the Deputy

1. that the manual of administration be followed by any further Royal Commission, and that the terms of reference

DATE OF REPORT
RECOMMENDATION #

(See Note)

CONTENT OF RECOMMENDATION

setting up the Commission specify that the manual of administration must be followed;

2. that personal expenditures for Royal Commissioners be the same as that allowed for M.P.P.'s on select committees;

3. that staff who are hired on a full-time or contract basis be not paid on a per diem basis;

4. that a time frame for reporting be established at the outset and be adhered to or approval of the Lieutenant Governor in Council must be sought, and that if there is any extension required, that the same be reported to the Legislature and the reasons therefor;

5. that a specific date for the winding-up of the Commission business and a date when the Commission ceases to act as Commissioner be decided upon by the Lieutenant Governor in Council;

6. that it be the Government decision on how many copies of a report will be published rather than it be the decision of the Royal Commission or Commissioners.

STATUS AS AT DATE OF PREPARATION
OF 1978-79 AUDITOR'S REPORT

Attorney General advised us that "The terms of reference of a Royal Commission contain only those matters which describe, identify, and define the subject of the inquiry. The specification of administrative requirements in the terms of reference could have the effect of restraining or interfering with the independence of the Commission."

2. This recommendation has not been adopted as part of Section 65-11. However, we were advised by the Deputy Attorney General that the recommendation "is reasonable".

3. Although this recommendation is not directly included in Section 65-11, guideline 12 of this Section states that "salaries paid to Commission staff should be comparable to those paid for similar jobs in the civil service".

Additionally, the Deputy Attorney General advised us that "Full-time continuous staff are paid a weekly salary based on an annual rate. Legal counsel, technical consultants, and other experts are paid on the basis of negotiated fees comparable to those acceptable in the private sector. Project staff are paid either a fixed amount for the project, or at a unit rate, whichever is to the Commission's advantage."

4. This recommendation is not included as part of Section 65-11. In this regard, the Deputy Attorney General wrote "The establishment of a time frame for the conduct of a Commission would represent a limitation and restriction which does not apply in the adjudication of a civil or criminal matter, and would represent a limitation which could restrict the Commissioner's ability requisite for the full investigation of the matters as contemplated in Section 1 of The Public Inquiries Act. Furthermore,

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
June 22, 1978	*—	<p>The Committee recommends that there be an annual actuarial review to update the amounts required for the pension plans administered by the Province. The Committee also recommends that, if possible, the assumptions and projections of the actuarial review be published in a budget paper to give a clear view of the financial picture of the Province. As well, the Committee recommends that consistent payments be made at the same time every year so as not to distort the financial requirements of the Province.</p>	<p>The Treasurer of Ontario wrote to the Chairman of the Standing Public Accounts Committee as follows on February 14, 1979:</p> <p>a) "Interim annual reports have been prepared on the Teachers' Superannuation Fund and the Public Service Superannuation Fund since 1976. These reports are being used to monitor the cost of the plans; however, at this stage special payments are determined in the triennial actuarial valuations as required by The Pension Benefits Act</p> <p>"The essential purpose of the annual valuations is to introduce a consistent government approach in actuarial assumptions since the statutory triennial valuations are performed by different actuaries using different valuation methods. This allows for a comparability of pension plans, an earlier view of trends, but is not sufficiently detailed or comprehensive to justify modifying the amortization stream arising from the last formal triennial review."</p> <p>b) "In the Ontario Budget 1978, a clear presentation was made in Budget Paper 'A' of the financial position of the Province with respect to its pension plans. Perhaps at some time in the future a paper could be prepared to discuss the operation of the pension plans and the role they have in the economy. However, this would be inappropriate until after the Royal Commission on Status of Pensions in Ontario has released its report and a full discussion of that report has taken place."</p> <p>c) "Since the 1977 payments, the regular payments have been made on time. One of the past problems has been the timing of the release of the triennial reports. For example, the 1975 report on the Teachers' Superannuation Fund was</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
June 22, 1978	*—	The Committee recommends that there be a finite time limit placed in the Ontario Loan Acts, perhaps an 18-month period. There is an indication that at present the Treasurer could borrow up to \$600 million without further reference to the Legislature because of amounts outstanding from Loan Acts that have been passed in previous years.	not available until late 1977 which made it impossible for the Province to meet the payment due December 31, 1976."
June 22, 1978	*—	The Committee also recommends that all government borrowings should be consolidated under one Ontario Loan Act to avoid confusion and to give a clear picture of the financial requirements of the Province.	Pursuant to section 2 of The Ontario Loan Act, 1979, money can only be raised under that Act "to the extent authorized by order of the Lieutenant Governor in Council made prior to the 30th day of September, 1980".
June 22, 1978	*—	The Committee recommends that all government departments with the exception of the Motor Vehicle Claims Branch and Community and Social Services turn over their delinquent accounts to the Central Collec-	Funds authorized to be raised pursuant to The Ontario Loan Act, 1979, are now inclusive of Province of Ontario debentures issued to the Teachers' Superannuation Fund and the Ontario Municipal Employees Retirement Fund.
			However, loans made by Ontario Hydro pursuant to The Power Corporation Act continue to be over and above the amount authorized by The Ontario Loan Act, 1979. In this regard, on February 14, 1979 the Treasurer of Ontario advised the Chairman of the Standing Public Accounts Committee that "Hydro borrowings should continue to be subject to specific scrutiny under its existing legislation. Unlike the borrowings listed above, loans made through The Power Corporation Act are not used for provincial 'own account' purposes. Further, principal and interest payments are met from Hydro revenues".
			Accounting Policy Statement No. 504, issued by the Ministry of Treasury and Economics, states that all ministries must engage Central Collection Services where there has been no success in collecting amounts due within three months. Adherence thereto will be monitored in future Ministry audits, and any

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
Dec. 15, 1978	*—	tion Services section of the Ministry of Government Services as soon as possible, but no longer than 120 days after they become delinquent.	significant deviations will be included in our annual reports to the Legislature.
		It is the recommendation of the Public Accounts Committee that if it is to do its job effectively and comprehensively, the Committee must have adequate research staff to assist in its endeavours.	Funds have been provided for a research assistant in the Committee's approved budget for 1979-80.
Dec. 15, 1978	*—	The Committee is also of the opinion that it should be able to meet when the Legislature is not in session; this would enable it to deal in detail with the Auditor's Report and Public Accounts of the Province. The Committee, therefore, requests that the House give it leave to sit when the Legislature is not in session.	On December 15, 1978, the Committee was authorized by the House to sit during February, 1979 in order to consider the 1977-78 Report of the Provincial Auditor. Accordingly, certain sections of that Report were reviewed by the Committee during the three days from February 19 to 21, 1979. Additionally, on June 22, 1979, the Committee was authorized to meet during the summer recess. As a result, the Committee met on June 27 and 28 to review matters related to The Royal Ontario Museum.
Dec. 15, 1978	*—	In regard to Management Board Orders and Special Warrants, the Committee recommends that the Legislature be given an opportunity to debate these items of spending. The Committee views this as necessary to ensure Parliamentary control over expenditures and to promote accountability by the Executive to Parliament for moneys spent.	On January 25, 1979 the Chairman, Management Board of Cabinet, advised the Chairman of the Standing Public Accounts Committee that this issue had been considered by Management Board, and enclosed a report in reply to this recommendation. For various reasons, as outlined in the report, the final response was that "Management Board Orders and Special Warrants should be recognized as essential to Government's flexibility in exercising its executive function, and as such should be retained in their present form".
May 31, 1979	*—	The Committee recommends that The Royal Ontario Museum furnish the Committee	Following the adoption of the Committee's Report by the Legislature on June 4, 1979, the requested documents were

**STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED**

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1978-79 AUDITOR'S REPORT
May 31, 1979	*—	<p>with the most current monthly financial statements and budget of The Royal Ontario Museum, for analysis by the Provincial Auditor. Such statements analysis, to be returned to the Committee within 3 weeks preferably 2 weeks.</p> <p>The Committee further recommends that the Minister of Culture and Recreation, the Deputy Minister of Culture and Recreation together with the Chairman of the Board of The Royal Ontario Museum and the Director of The Royal Ontario Museum attend the Committee's deliberations of the matter.</p>	<p>immediately made available for analysis by this Office. Our memorandum arising from this analysis was submitted to the Committee on June 21, and Committee meetings dealing with The Royal Ontario Museum were held on June 27 and 28.</p> <p>The Chairman of the Board and the Director of The Royal Ontario Museum were in attendance for the duration of the Committee meetings on June 27 and 28. Additionally, both the Minister and Deputy Minister of Culture and Recreation were present at the June 27 Committee meeting.</p>

NOTE: This Exhibit includes the status of the recommendations contained in all Reports issued by the Standing Public Accounts Committee from July 10, 1975 to December 15, 1977 which were considered unresolved as at the date of our 1977-78 Auditor's Report (see Exhibit 9 of the 1977-78 Auditor's Report). The Exhibit also includes the status of all recommendations contained in the Committee's Reports to the Legislature dated June 22, 1978, December 15, 1978 and May 31, 1979.

* Considered resolved as at September 28, 1979, the date of this Report.

EXHIBIT 9

SUMMARY OF RECOMMENDATIONS

REPORT OF THE ROYAL (LAMBERT) COMMISSION ON FINANCIAL
MANAGEMENT AND ACCOUNTABILITY**Chapter 5: Setting Limits: The Fiscal Plan**

The Commission recommends that

- 5.1 each year the Minister of Finance present to Parliament, on behalf of the Government, a five year Fiscal Plan which provides estimates of revenues, sets expenditure ceilings, and reflects the expected surplus or deficit. The Plan would be based on the existing tax structure and clearly stated economic assumptions.
- 5.2 the Fiscal Plan contain ceilings on expenditures for specified functions of government within the ceiling set on expenditures for each of the five years covered by the Plan.
- 5.3 for the first three years covered by it, the Fiscal Plan contain departmental and agency expenditure ceilings, within the total expenditure limit for each of those years.
- 5.4 an annual update of the Fiscal Plan be developed jointly by the Department of Finance, the Privy Council Office, and the Financial Management Secretariat of the Board of Management, and that the Minister of Finance, supported by the President of the Board of Management, submit it to the Cabinet Committee on Priorities and Planning.
- 5.5 the Government set out clearly the effects on the Fiscal Plan of the Estimates, Supplementary Estimates, and the Budget when it tables these documents.
- 5.6 legislative proposals be accompanied by five-year projections of their financial implications and a statement of any consequent adjustments necessary in the Fiscal Plan.

Chapter 6: Planning Expenditures and Accounting for Results

The Commission recommends that

- 6.1 each program, activity and sub-activity displaying resource requirements in the Estimates have a specific stated purpose and, in so far as possible, a measurable result.
- 6.2 Consolidated Estimates presenting government-wide information and the important features of departmental and agency Estimates be submitted annually to Parliament.
- 6.3 the Consolidated Estimates contain a comprehensive comparison of the total expenditures proposed in them with expenditure limits set out for the Estimates year in the most recent Fiscal Plan.
- 6.4 separate Estimates of expenditure for each department and agency be tabled

at the same time as the Consolidated Estimates, and that such separate submissions be drawn up in accordance with centrally-determined standards of disclosure and accounting practices, with decisions pertaining to detail left to each department and agency.

- 6.5 legislation be amended or enacted to require that details of expenditures to be incurred under statutory programs be fully identified and quantified in the Consolidated Estimates and updated in the Supplementary Estimates; and, that the same level of detail as is provided for non-statutory expenditures be provided for statutory expenditures.
- 6.6 legislation for all new statutory programs, except those relative to interest on the public debt, require that funding lapse automatically at the end of the fifth year following introduction, and that renewal of such funding be authorized only after parliamentary review of the current and projected costs and benefits of such programs.
- 6.7 with respect to existing statutory programs, legislation be enacted to require the responsible minister to evaluate once in the next ten years and thereafter every five years the current and projected costs and benefits of all these programs, except those relative to interest on the public debt, and that a report thereon be tabled in Parliament and be automatically and permanently referred to the appropriate standing committee for its consideration and recommendations.
- 6.8 the practice of vote-netting be discontinued.
- 6.9 all departments and agencies be required to prepare complete annual reports by September 30 following the end of the fiscal year to which they relate, that these reports be immediately tabled in the House of Commons or, if the House is not sitting on that date, within 10 days of the time the House next meets, and, that they be automatically and permanently referred to the standing committee that reviews the Estimates of the department or agency concerned.
- 6.10 Volume II of the Public Accounts contain departmental financial statements and other financial data required by the Financial Administration Act, signed by the deputy minister as chief administrative officer and by the senior financial officer, and that it continue to be referred to the Public Accounts Committee.

Chapter 7: Consolidating the Management Function of Government

The Commission recommends that

- 7.1 the Financial Administration Act be amended to rename the Treasury Board the Board of Management, that the new Board be chaired by a senior minister with the title President of the Board of Management, and that one of the other five ministers be appointed Vice-President of the Board of Management.
- 7.2 the Board of Management have the responsibilities set out in Sections 5 and

- 7 of the Financial Administration Act for general administrative policy, organization of the public service, financial management, and personnel management.
- 7.3 with regard to financial management, the Board of Management have responsibility to review annual and longer term expenditure plans and programs of departments and Crown agencies requiring appropriations from the Consolidated Revenue Fund, and that these plans and programs be reviewed to ensure that they are in accordance with the priorities and expenditure ceilings approved by the Cabinet in the Fiscal Plan, and that they have been prepared with due regard to the economical and efficient use of personnel and money.
- 7.4 the Public Service Employment Act be amended so as to transfer the authority of the Public Service Commission for staffing the public service to the Board of Management, while leaving with the Public Service Commission continuing responsibility for the preservation and monitoring of the merit principle.
- 7.5 the Board of Management have responsibility for reviewing the effectiveness with which departments and agencies administer the programs and activities set out in their annual expenditure plans.
- 7.6 the Board of Management be supported by two secretaries of the Board, one, the Secretary for Personnel Management, and the other, the Comptroller-General.
- 7.7 under the direction of the President of the Board of Management, the Secretary for Personnel Management have the central management responsibilities for government-wide policies on manpower planning; appraisal of personnel at the senior management level, and career development of the senior management cadre; collective bargaining; administrative policies relating to personnel, official languages, and training; and, that the Secretary for Personnel Management ensure that positions are correctly classified, departments are staffed in accordance with the Public Service Employment Act, and that departmental organization is monitored and reviewed.
- 7.8 under the direction of the President of the Board of Management, the Comptroller General have the central management responsibilities for the screening of departmental plans and Estimates; advice on departmental expenditure ceilings and man-year ceilings in the Fiscal Plan; program evaluation policies and procedures, including performance measurement standards; the preparation of the Consolidated Estimates and the Public Accounts; accounting principles and practices, including standards of disclosure required in annual reports and financial statements; the organization of financial services and internal audit in departments; the training and development of financial officers; and, administrative policies concerning contracts and the procurement of matériel and services.
- 7.9 the Secretary for Personnel Management and the Comptroller General together be responsible, on behalf of the Board of Management, for reviewing

the economy, efficiency, and effectiveness with which departments and agencies administer the financial and human resources authorized by Parliament.

- 7.10 two secretaries for the Board of Management be established, the Personnel Management Secretariat to be headed by the Secretary for Personnel Management and the Financial Management Secretariat to be headed by the Comptroller General.
- 7.11 the Secretary for Personnel Management and the Comptroller General draw from their respective secretariats a common staff support group for coordinating the preparation of agendas, the recording of minutes and decisions of the Board of Management, and for communicating to departments and agencies the action required of them.
- 7.12 the Public Service Employment Act be amended to give the Board of Management the authority to make appointments to and within the public service, and to specify that the Board of Management delegate this authority only to the Secretary for Personnel Management or to deputy ministers and their counterparts in Crown agencies.
- 7.13 the Secretary for Personnel Management be responsible for appointing assistant deputy ministers and their equivalents, including senior personnel officers and senior financial officers, on the recommendation of the deputy head concerned.
- 7.14 the Board of Management reassume the Treasury Board's full responsibility for training, and delegate the authority for carrying it out to the Secretary for Personnel Management.
- 7.15 training services be provided through a separate, revenue dependent organization reporting to the Secretary for Personnel Management and subject to the accountability régime set out for common service organizations.
- 7.16 the Public Service Commission be reconstituted as a Parliamentary Department with the duty of ensuring that selection and appointment to the public service are made on the basis of merit, and that the Public Service Commission report annually to Parliament those instances where personnel policies, procedures, and actions fail to support the merit principle.
- 7.17 the autonomy of the Public Service Commission be assured by providing that the appointment of Commissioners by the Governor in Council be for ten years during good behaviour and be subject to ratification by the Senate and the House of Commons, and that removal be upon address of both Houses of Parliament.
- 7.18 the Public Service Commission have the power to direct the Secretary for Personnel Management to cause appointments to be revoked and to institute new competitions or other selection procedures.
- 7.19 the Program Branch of the Treasury Board Secretariat be transferred to the Financial Management Secretariat.

- 7.20 the Comptroller General be responsible for screening and recommending the approval of departmental Estimates to the Board of Management.
- 7.21 the Comptroller General be empowered by the Board of Management to require that departments conduct specific program evaluations in problem areas identified by the Board, that the Comptroller General set standards for these evaluations, and that the Comptroller General recommend to the President of the Board of Management that action be taken where program evaluation is hindered by jurisdictional disputes.
- 7.22 the Board of Management direct the Comptroller General, as required, to conduct an evaluation of the effectiveness of any program or program component, or of the economy and efficiency with which a program or component is managed.
- 7.23 authority and responsibility for the format and content of the Consolidated Estimates and the Public Accounts be assigned to the President of the Board of Management, and that he be supported in these responsibilities by the Comptroller General.
- 7.24 the Comptroller General recommend standards of disclosure and accounting to the Board of Management for use in all Estimates, the Public Accounts, and annual reports submitted to Parliament, and that he ensure that the standards approved by the Board are adhered to.
- 7.25 a Chief Accountant of the Government of Canada be appointed to assist the Comptroller General in determining the format and content of the Consolidated Estimates and the Public Accounts, in setting standards of disclosure and accounting to be used in Estimates, Public Accounts, and annual reports, and in ensuring that approved standards are maintained.
- 7.26 the accounting branch of the Financial Management Secretariat include an accounting systems division charged with planning, controlling, and monitoring the development, introduction, and maintenance of cost-based accounting systems in departments.
- 7.27 the Comptroller General determine the requirements of government for financial and accounting skills, and be responsible for the identification and development of the necessary people to meet these requirements.
- 7.28 the minimum scope and standards of internal auditing, including auditing for compliance with central agency directives and guidelines, be determined by the Comptroller General.
- 7.29 departmental internal audit programs and reports be submitted to the Comptroller General for his review, and that the Comptroller General also have the authority to evaluate the effectiveness of the internal audit work performed by departmental and agency audit staff.
- 7.30 the Audit Services Bureau in the Department of Supply and Services be disbanded and its staff transferred to individual departments and to the Financial Management Secretariat.

- 7.31 the Financial Administration Branch in the Financial Management Secretariat be staffed to conduct internal audits of departments without an internal audit capability.
- 7.32 the Comptroller General and his staff work with departments to assist them in the preparation of annual work plans for improving financial management and control, and that they monitor and assist in the satisfactory implementation of these plans.
- 7.33 the Comptroller General and the Secretary for Personnel Management conduct an annual in-depth review of each department's management performance.
- 7.34 the assessment of departmental performance, prepared jointly by the Comptroller General and the Secretary for Personnel Management, be submitted to the responsible minister, the President of the Board of Management, the Privy Council Office, and the Committee of Senior Officials on Executive Personnel.
- 7.35 the authority and responsibility for the operations of the Consolidated Revenue Fund and all other aspects of day-to-day cash management be clearly vested in and fulfilled by the Department of Finance.
- 7.36 all funds deposited in authorized depositories in the name of the Receiver General be credited immediately to the account of the Government of Canada, and that amounts in excess of minimum balances established by contract earn interest as from the following business day.
- 7.37 charges for all banking services rendered in connection with transactions relating to the government be made on a fully competitive basis.
- 7.38 plans for daily minimum cash balances, receipts, and disbursements be made by the Bank of Canada in the light of information provided by the Department of Finance.
- 7.39 subject to election by recipients, repetitive payments to individuals, such as those for salaries, pensions, and family allowances, be made by automatic transfer through the central clearing system to designated depositories, thus obviating the costs of cheque issue and distribution.

Chapter 8: Common Services

The Commission recommends that

- 8.1 common service organizations be funded through a system of revenue dependency on a full-cost basis.
- 8.2 all common service organizations offer their goods and services at rates based on a full-cost approach, and that all goods and services provided by common service organizations be unit-priced.
- 8.3 funds for common services, including, annual rental costs for accommodation, be provided in the Estimates of the user departments, and that all

transactions between common service organizations and client departments be actual transactions.

- 8.4 the Comptroller General annually conduct public hearings with respect to the fees charged by common service organizations with the full participation of common service organizations, program departments and agencies, and interested private sector groups, and that, on the basis of these hearings, the common service fee structures be recommended to the Board of Management for approval and communication to all departments and agencies.
- 8.5 the Bureau for Translations and the Government Telecommunications Agency be transferred to the Department of Supply and Services under the direction and control of the Minister of Supply and Services.
- 8.6 all the functions of the Department of Supply and Services be brought together under one deputy minister.
- 8.7 the Crown Assets Disposal Corporation continue to be responsible to the Minister of Supply and Services, be governed by the common service policies of the Board of Management, and be subject to the proposed management and accountability régime recommended for all departments.
- 8.8 the branches within the Departments of National Defence, Transport, and Indian Affairs and Northern Development which provide design and construction capabilities be specifically and separately identified and organized as Other Designated Departments, and made revenue dependent on a full-cost basis.

Chapter 9: Responsibility and Accountability for Departmental Management

The Commission recommends that

- 9.1 departmental plans and performance goals be developed for the minister's approval by the deputy minister in his capacity of Chief Administrative Officer, and that the achievement of these program and performance objectives be monitored and later reviewed by the Board of Management in a manner that would permit the deputy to defend departmental performance.
- 9.2 deputy ministers be liable to be called to account directly for their assigned and delegated responsibilities before the parliamentary committee most directly concerned with administrative performance, the Public Accounts Committee.

Chapter 10: The Appointment and Appraisal of Deputy Heads

The Commission recommends that

- 10.1 on appointment, a deputy head be expected to serve in his department for a period of three to five years.
- 10.2 the views of the Secretary for Personnel Management and the Comptroller General be sought with respect to all deputy head appointments.
- 10.3 on appointment of the deputy, the Secretary to the Cabinet, the official serv-

ing as adviser on senior appointments, and the two secretaries of the Board of Management meet with him to discuss departmental problems, issues, and performance expectations, and that individual objectives be agreed between the minister and the deputy, submitted to the Prime Minister, and serve as the continuing basis for performance evaluations.

- 10.4 these statements of objectives be reviewed annually by the deputy head and the minister, and any changes deemed necessary be communicated to the Prime Minister, the Secretary to the Cabinet, the adviser on senior appointments, and the two secretaries of the Board of Management.
- 10.5 the Committee of Senior Officials on Executive Personnel, comprising the Secretary to the Cabinet, the adviser on senior appointments, the Comptroller General, and the Secretary for Personnel Management as permanent members, and four other deputy ministers appointed on a rotational basis, be responsible for preparing for the Cabinet appraisals of the performance of all Governor in Council appointees who are involved in the management of departments.
- 10.6 the deputy head have the opportunity to comment on the evaluation before it is forwarded to the Cabinet Committee on the Public Service and the full Cabinet.
- 10.7 following the final decision by the Cabinet, the annual evaluation of a deputy's performance be discussed personally with him by the adviser on senior appointments.
- 10.8 the COSO evaluation of the deputy be reviewed and, if necessary, commented upon by the minister before its submission to the Cabinet.
- 10.9 a deputy secretary to the Cabinet be assigned full-time responsibility for supporting the adviser on senior appointments.

Chapter 11: The Preparation and Review of Departmental Plans

The Commission recommends that

- 11.1 deputy heads of all departments ensure that their organizational structures clearly reflect that responsibility centres are directly related to programs, activities, or sub-activities that can be identified with particular resources and, where possible, with specific measurable outputs.
- 11.2 such responsibility centres be under the control of managers who can be accountable for establishing plans and achieving results.
- 11.3 each departmental management committee place priority on developing strategy and plans for setting medium-term departmental objectives, by approving challenging goals for managers, and by communicating these objectives and goals clearly to managers of responsibility centres.
- 11.4 the preparation and submission of Program Forecasts be discontinued.
- 11.5 departments be required to prepare Departmental Strategic Plans each year for submission to the Board of Management in support of the Estimates, and

to the Department of Finance and the Privy Council Office for their information and consideration.

- 11.6 the departmental Estimates submission to the Board of Management be accompanied by a memorandum outlining the key operational goals to be achieved by the end of the Estimates year.
- 11.7 the screening of departmental plans be concluded by the transmittal of a letter to each minister from the President of the Board of Management, and that this letter comment on the results of the screening and report any unresolved or other important issues.
- 11.8 the minister responsible for the Departmental Strategic Plan and Estimates, accompanied by the deputy head, appear before the Board of Management to explain and justify his Estimates submission, and that the Comptroller General and the Secretary for Personnel Management attend these meetings to respond to any questions from the Board about their interpretation of, or recommendations on, the plans and the Estimates.
- 11.9 the Financial Management Secretariat monitor the implementation of recommendations made by the Board of Management for any changes in departmental plans or Estimates.

Chapter 12: The Deputy and the Departmental Management Team

The Commission recommends that

- 12.1 the Board of Management require the deputy to ensure that goals are set for each manager reporting directly to him, that goals focus attention on the most important problems and priorities in the manager's area of responsibility, and that they provide an objective basis for measuring the manager's performance.
- 12.2 deputy heads be delegated the authority for approving organization, classification, and staffing decisions affecting all positions below the level of assistant deputy minister or equivalent within existing complements.
- 12.3 the deputy's recommendations for the classification of positions at the level of assistant deputy minister and equivalent, and changes in organization involving positions at this level, be subject to approval by the Board of Management.
- 12.4 for assistant deputy minister and equivalent positions, the deputy head select a candidate from a list drawn up by the Secretary for Personnel Management and recommend that candidate for appointment by the Secretary for Personnel Management.
- 12.5 deputy heads establish similar procedures for delegating authority for and approving classification, organization, and staffing decisions within departments.
- 12.6 the Board of Management ensure the effective discharge of these funda-

mental personnel management responsibilities by deputy heads through audit procedures and annual departmental performance reviews.

- 12.7 Parliament enact legislation to introduce unsatisfactory performance as grounds for discipline or release, subject to the present appeals process and review by the Public Service Commission, and to simplify the process for disciplining or releasing consistently below-par performers at all levels.
- 12.8 the Secretary for Personnel Management of the Board of Management delegate to deputy heads who have established acceptable performance appraisal procedures the authority to dismiss, demote, or transfer employees below the level of assistant deputy minister.
- 12.9 the Secretary for Personnel Management operate a placement and counselling service to assist employees who have been dismissed.
- 12.10 deputy heads establish and follow a management succession and career development plan that systematically identifies candidates for senior positions in the department and for promotion to other positions within the public service.
- 12.11 the Secretary for Personnel Management review the departmental plans with the deputy heads and consolidate them to establish a managerial career development plan for the government as a whole.
- 12.12 the performance of deputy heads in developing managers be made an important part of the deputies' own performance evaluations.
- 12.13 the senior personnel officer in the department report directly to the deputy head and be a full and active member of the management committee.

Chapter 13: Departmental Financial Organization and Personnel

The Commission recommends that

- 13.1 staff courses, temporary secondment to the private sector, temporary assignment programs, and other career development arrangements for senior managers be developed in such a way that they lay strong emphasis on practical explanations and demonstrations so that participants develop a better understanding of the nature and purposes of financial management in government.
- 13.2 deputies be required to manage and organize their departments so as to permit senior financial officers to make a significant contribution to their planning, budgeting, controlling and evaluation activities.
- 13.3 each senior financial officer be required annually to establish measurable goals for his personal performance, that such goals be agreed to by the deputy minister and the Comptroller General, and that his subsequent performance evaluation by the deputy be based on a measurement of achievement against these goals.
- 13.4 for senior financial officer positions, the deputy head select a candidate from a list drawn up by the Comptroller General and recommend that candidate for appointment by the Secretary for Personnel Management.

- 13.5 the senior financial officer in the department report directly to the deputy head and be a full and active member of the management committee.
- 13.6 the Comptroller General, if his discussions with the deputy head concerned produce no satisfactory result, be required to report to the Board of Management those instances where financial management in a department is unsatisfactory because of badly defined and/or ineffective functional authority of senior financial officers over financial staffs reporting to program or regional managers.
- 13.7 on receipt of a report of unsatisfactory financial management, the Board of Management be empowered to direct that all financial staff of the department concerned report directly to the senior financial officer for a period to be specified by the Board.
- 13.8 the Secretary for Personnel Management of the Board of Management revise the classification benchmarks for financial and clerical positions to ensure that only those positions requiring formal accounting training are placed in the F1 group; and that he ensure that all F1 position descriptions accurately reflect the skills and duties required of the incumbent.
- 13.9 the secretary for Personnel Management of the Board of Management work closely with the Comptroller General to develop courses that meet both modern standards and financial management requirements in the federal government, and that satisfactory completion of such courses be appropriately tested and recognized.

Chapter 14: Accounting and Auditing

The Commission recommends that

- 14.1 comprehensive cost-based accounting systems be developed and used in all federal departments and agencies, and that these systems meet the criteria of capturing all costs on a timely and accurate basis and be integrated with costing systems capable of analyzing the data thus obtained.
- 14.2 accounting systems in departments and agencies incorporate independent financial control over all non-cash assets, and particularly over fixed assets and inventories.
- 14.3 the federal government take the lead in setting up a joint task force with the provincial governments to determine the accounting standards that should be recognized, accepted, and used in the presentation of government financial information.
- 14.4 departments be fully responsible for the design and upkeep of their own accounting systems.
- 14.5 departmental accounting systems be designed to provide the information required by central agencies accurately and promptly.
- 14.6 departmental accounting systems, and any subsequent changes therein, be formally approved by the Comptroller General before being brought into use.

- 14.7 the internal audit responsibility of departments and agencies be based on a comprehensive approach to all financial, operational, and management auditing, and that it therefore cover adherence to all centrally-prescribed financial, personnel, official languages, data processing, and other administrative policies and procedures, as well as the economy, efficiency, and effectiveness with which resources are used.
- 14.8 Audit Committees be formally created in all departments and that they comprise at least the deputy head and two members from the ranks of senior executives of major corporations and organizations in the private sector.

Chapter 16: A Proposed Re-ordering of Crown Agencies

The Commission recommends that

- 16.1 the Schedules to the Financial Administration Act be replaced by a more comprehensive set of schedules in accordance with four categories:

- 1) Ministerial and Other Designated Departments
- 2) Independent Deciding and Advisory Bodies
- 3) Crown Corporations
- 4) Shared Enterprises

and that when any re-scheduling occurs such decisions be tabled for the information of Parliament.

Chapter 18: Independent Deciding and Advisory Bodies

The Commission recommends that

- 18.1 every constituent act of an Independent Deciding and Advisory Body designate one official as chief executive officer who will be responsible for the supervision and direction of the work and staff of the agency and be held accountable for the administration of the agency.
- 18.2 unless specifically exempted in the constituent act, the authority of the Board of Management with respect to financial and personnel management in departments apply to Crown agencies in Category II, Independent Deciding and Advisory Bodies.
- 18.3 when Independent Deciding and Advisory Bodies are established, the goals and public policies they are to implement, or be guided by, be clearly set out in their constituent acts.
- 18.4 in cases where Independent Deciding and Advisory Bodies are authorized to make regulations, these be subject to Governor in Council approval before being promulgated.
- 18.5 the constituent acts of Independent Deciding and Advisory Bodies contain provisions allowing for policy directives from the Governor in Council.
- 18.6 prior to the issuance of a policy directive to an Independent Deciding and Advisory Body, the Government refer the matter to the agency, which may

request public submissions thereon and shall make a public report within ninety days or such longer period as the Government may specify, and further, that such directives be published in the Canada Gazette and tabled in the House of Commons.

- 18.7 the right to appeal individual decisions of regulatory agencies to designated ministers or the Governor in Council be abolished.
- 18.8 without abrogating the powers granted to the Governor in Council in the Public Service Rearrangement and Transfer of Duties Act, the transfer to a department or agency of government of any function assigned by statute to an Independent Deciding and Advisory Body require parliamentary approval.
- 18.9 all constituent acts of Independent Deciding and Advisory Bodies clearly stipulate that members shall be subject to removal only for cause and that in addition, for regulatory agencies, such action be subject to a joint resolution of both Houses of Parliament.
- 18.10 the members of Independent Deciding and Advisory Bodies designated as chief executive officers be appointed to such positions for three-year terms, subject to renewal, and that their administrative performance be evaluated by the Committee of Senior Officials on Executive Personnel, and its reports be submitted to the Cabinet when it is considering re-appointment.
- 18.11 chief executive officers of Independent Deciding and Advisory Bodies undertake annual performance evaluations of the members of their agencies and that such evaluations be forwarded to COSO and the Cabinet.
- 18.12 the annual reports of Independent Deciding and Advisory Bodies be automatically and permanently referred to the appropriate standing committees of the House of Commons, and that they provide a thorough description of the activities of the preceding year including both achievements and problems, a record of reports issued and directives received, and plans for the coming year.
- 18.13 the designated minister be required to undertake a review of the functions and operations of Independent Deciding and Advisory Bodies not less than once every ten years, and further, that the results of such reviews be tabled in the House of Commons and be automatically and permanently referred to the appropriate standing committee.

Chapter 19: Crown Corporations

The Commission recommends that

- 19.1 in the constituent act, or letters patent issued under the Canada Business Corporations Act, for each Crown Corporation, the mandate provide a clear definition of the task, purposes, objectives, and powers devolved upon the corporation, and where letters patent are used to constitute the corporation, that these automatically be tabled in Parliament.
- 19.2 the creation of a Crown Corporation or subsidiary or the acquisition of a company by a Crown Corporation or subsidiary require express parliamen-

tary sanction in the relevant departmental or Crown Corporation constituent act and prior Governor in Council approval.

- 19.3 the chief executive officer be responsible for preparing a Corporate Strategic Plan for the approval of the board and for the information of the designated minister.
- 19.4 directives issued to a Crown Corporation by the designated minister be subject to Governor in Council approval, be tabled forthwith in Parliament, and be duly recorded in the annual report of the corporation.
- 19.5 directives issued to a Crown Corporation be binding on the corporation but that they relieve the directors of their responsibility in the matter, and that, where directives result in additional costs to the corporation, compensation on an agreed or independently arbitrated basis be awarded.
- 19.6 directors of Crown Corporations be appointed for three-year staggered terms by the Governor in Council on the recommendation of the designated minister, after consultation with the chairman of the board of directors.
- 19.7 the chairman of the board of directors of a Crown Corporation be appointed by the Governor in Council after consultation with the board.
- 19.8 subject to confirmation by the Governor in Council on the recommendation of the designated minister, the chief executive officer of a Crown Corporation be appointed and removed by the board of directors of the corporation.
- 19.9 the president of a Crown Corporation be chief executive officer, and that his remuneration, together with that of the chairman of the board, be fixed by the board of directors within ranges approved by the Governor in Council, such ranges to be determined on the recommendation of independent advisers.
- 19.10 the board of directors of a Crown Corporation be responsible for establishing the form and contents of the capital and operating budgets based on the highest accepted standards.
- 19.11 the capital budget, when appropriations are not required, be approved by the board of directors, submitted to the designated minister and the Minister of Finance for review and approval, and thereafter be submitted to the Governor in Council for approval and subsequent tabling in Parliament at the same time as the Estimates.
- 19.12 the capital budget, when appropriations are required, be approved by the board of directors, submitted to the designated minister, the Minister of Finance, and the Board of Management for review and approval, and thereafter be submitted to the Governor in Council for approval and subsequent tabling in Parliament with the Estimates.
- 19.13 the operating budget, when appropriations are not required, be approved by the board of directors, be presented to the designated minister for information, and be assigned to the chief executive officer for implementation.

- 19.14 the operating budget, when appropriations are required, be approved by the board of directors, and forwarded to the designated minister for his approval and subsequent transmission to the Board of Management and the Governor in Council for their approval prior to tabling in Parliament, and that all approval procedures be completed before the budget is assigned to the chief executive officer for implementation.
- 19.15 Crown Corporation bylaws take effect on approval by the board of directors, but that they require subsequent ratification by the Governor in Council and tabling in Parliament.
- 19.16 codes of conduct and a system of compliance be prepared by Crown Corporations, approved by the board of directors, and agreed with the minister, and that monitoring of compliance be the responsibility of the board.
- 19.17 all Crown Corporations appoint audit committees made up of outside directors.
- 19.18 the Governor in Council appoint the external auditor on the recommendation of the board of directors, except where the auditor is already named in constituent legislation.
- 19.19 the Auditor General, where he is not named as the external auditor, have access to the audit reports of outside auditors of Crown Corporations.
- 19.20 every subsidiary be listed with its parent in the Crown Corporations category, and that the financial statements of all subsidiaries on both a consolidated and unconsolidated basis be included in the parent corporation's annual report.
- 19.21 the designated minister be required to undertake a review of the mandate and operations of Crown Corporations not less than once every ten years and further that the results of such reviews be tabled in Parliament and referred automatically for study and appropriate action to the relevant standing committee.

Chapter 20: Shared Enterprises and Quasi-public Corporations

The Commission recommends that

- 0.1 Shared Enterprises be listed as such for purposes of identification in the revised schedules to the Financial Administration Act, and that the subsidiaries of Shared Enterprises be directly accountable to their parent corporations and identified by and listed with their parent corporations.
- 0.2 accountability with respect to the delegated public responsibility of Shared Enterprises normally be subject to appropriate federal or provincial corporate law, and, in addition, that provision be made for appropriate reporting and disclosure to Parliament.
- 0.3 the designated minister as trustee shareholder for the Crown accept the rights and responsibilities of any shareholder under the applicable corporate

law, except where those rights and responsibilities have been clearly modified by a specific constituent act.

- 20.4 the designated minister be the accountability link between a Shared Enterprise and Parliament.
- 20.5 the annual reports of Quasi-public Corporations that receive grants or contributions from the Government be tabled each year at the same time as the tabling of the Estimates.
- 20.6 the Government undertake to hold the officers of Quasi-public Corporations accountable in a manner commensurate with the degree of governmental sponsorship or encouragement of those corporations.

Chapter 21: Rights and Responsibilities

The Commission recommends that

- 21.1 the deputy minister as chief administrative officer account for his performance of specific delegated or assigned duties before the parliamentary committee responsible for the scrutiny of government expenditures, the Public Accounts Committee.
- 21.2 there be established a committee of the House of Commons to be known as the Standing Committee on Government Finance and the Economy, that the annual Fiscal Plan presented to Parliament be automatically and permanently referred to this committee, that the committee report to the House on its study of the Plan, and, that the Government respond formally to the committee's report during a subsequent debate.

Chapter 22: Instruments and Procedures

The Commission recommends that

- 22.1 the total number of standing committees of the House of Commons be reduced and that, with the exception of the Public Accounts Committee, membership on them be limited to 15 or fewer.
- 22.2 Standing Order 65.(4) be amended to provide for prior notice of votes in committees and the establishment of alternate lists from which to draw substitutes for committee members.
- 22.3 the chairmen of standing committees be elected by each committee for the life of a parliament, and receive remuneration for performing their duties, such remuneration to relate to that received by parliamentary secretaries.
- 22.4 each standing committee of the House of Commons be allotted a budget to which all expenses associated with the operation of the committee are charged, that the budget include an allocation for hiring staff but that the selection of staff be at the discretion of the committee, and, that staff be at the service of the whole committee but under the direction of the chairman.
- 22.5 the annual reports of departments and agencies be automatically and per-

manently referred to the appropriate standing committees of the House of Commons.

- 22.6 Standing Order 58.(16) be re-interpreted to make clear that substantive reports from House committees are desirable whether or not they are to be debated.
- 22.7 Standing Order 58 be amended to permit standing committees to recommend the partial reduction of an item of expenditure in the Estimates.
- 22.8 all legislation relating to taxation be referred to the Standing Committee on Government Finance and the Economy, and that this committee be informed of the likely effects on the Fiscal Plan of all other legislative proposals.
- 22.9 standing committees undertake, as the need arises or as time permits, in-depth studies of the impact of programs, and that these studies concentrate on reviewing the need for and the benefits conveyed by specific programs.

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ANNUAL REPORT
of the
PROVINCIAL AUDITOR
of
ONTARIO

for the year ended March 31, 1980

ANNUAL REPORT
of the
PROVINCIAL AUDITOR
of
ONTARIO

for the year ended March 31, 1980

THE HONOURABLE J. E. STOKES, M.P.P.,

*Speaker of the Assembly
Province of Ontario*

Dear Sir:

I have the honour to present my report for the year ended March 31, 1980, in accordance with the requirements of The Audit Act, 1977, as amended.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'F. N. Scott', with a large, sweeping flourish at the end.

F. N. Scott, F.C.A.,
Provincial Auditor.

Toronto, September 30, 1980.

TABLE OF CONTENTS

	SECTION	PAGE
GENERAL		
Introduction	1.1	9
Timetable for Preparation and Submission of Annual Report	1.2	9
Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports	1.3	9
The Standing Public Accounts Committee	1.4	9
Recommendations of the Standing Public Accounts Committee	1.5	10
Managing by Results	1.6	10
 COMMENTS ON MINISTRY OPERATIONS		
Introductory Comments	2.1	17
Audit Memoranda	2.2	17
Program Delivery Improvements Recommended, Farm Tax Reduction Program, Ministry of Agriculture and Food	2.3	17
Multiplicity of Financial Assistance Programs, Ministry of Agriculture and Food	2.4	22
Comments on Reorganization, Ministry of Community and Social Services	2.5	23
Administrative Improvements Recommended Re Wintario Grants, Ministry of Culture and Recreation	2.6	25
Comments on Management and Delivery of Energy Con- servation Program, Ministry of Energy	2.7	28
Recommendations for Improvements in Economy and Reporting of Effectiveness, Ministry of the Environment	2.8	37
Matters Related to Performance Measurement and Effi- ciency of the Central Collection Services Activity, Ministry of Government Services	2.9	39
Weaknesses Re Technical Consulting Contracts, Ministry of Natural Resources	2.10	45
Inadequate Controls over Equipment Inventories, Ministry of Natural Resources	2.11	46
Motor Vehicle Management and Accounting System Deficiencies, Ministry of Natural Resources	2.12	48
Observations Re Community Priorities Projects, Ministry of Northern Affairs	2.13	49
Inadequate Follow-up Procedures Re Bursaries, Ministry of Northern Affairs	2.14	54

	SECTION	PAGE
Improvements Recommended Re Administration of Contracts, Ministry of Revenue	2.15	55
Audit of Administration by the Government of Canada of Provincial Income Tax, Ministry of Revenue ...	2.16	56
Accounts Receivable System Deficiencies, Ministry of Transportation and Communications	2.17	57
Expenditure of Royal Commissions	2.18	59
Expenditure of Select Committees	2.19	60

COMMENTS ON CROWN AGENCY OPERATIONS

Introductory Comments	3.1	61
Method of Audit Reporting	3.2	62
Newly Established Crown Agency	3.3	62
Inactive Crown Agencies	3.4	62
Apparent Conflict of Interest, The Centennial Centre of Science and Technology	3.5	63
Improvement in Physical Security of Computer Facilities Recommended, Liquor Control Board of Ontario	3.6	67
Unauthorized and Other Questionable Expenditures, Liquor Licence Board	3.7	68
Further Safeguards Warranted Re Works of Art on Loan, The McMichael Canadian Collection	3.8	72
Unlocated Equipment, The Ontario Educational Communications Authority	3.9	73
Lack of Employee Familiarity with New Computer System, Ontario Housing Corporation	3.10	74
Acquisition of Properties on Default of Mortgages, Ontario Mortgage Corporation	3.11	74
Report Made to the Standing Public Accounts Committee Re Matters Pertaining to The Royal Ontario Museum	3.12	79
Lack of Due Regard for Economy, Star Transfer Limited	3.13	80

COMMENTS ON INTERNAL AUDIT OPERATIONS

Introduction	4.1	82
Purpose and Scope of Review	4.2	82
Methodology	4.3	84
Summary of Findings	4.4	84

	SECTION	PAGE
Detailed Findings and Commentary	4.5	86
Recommendations to Ministries and Agencies	4.6	90
Government-Wide Issues and Recommendations	4.7	98
Conclusion	4.8	102

PUBLIC ACCOUNTS OF THE PROVINCE

Preparation of the Public Accounts	5.1	105
Expression of Opinion on the Financial Statements of the Province	5.2	105
Changes in Format, Financial Statements of the Province	5.3	106
Summary of Significant Accounting Policies	5.4	106
Arbitrary Financial Recording Practices, Modified Cash Basis of Accounting	5.5	107
Recorded Advances and Investments Repayable from Annual Expenditure Appropriations	5.6	109
Comments on Financial Statements	5.7	111
Payments out of the Consolidated Revenue Fund	5.8	111
Management Board Orders	5.9	112
Special Warrants	5.10	113
Board of Internal Economy	5.11	113
Certificate of the Management Board of Cabinet	5.12	113
Voted Appropriations — Comparison of Authorized and Actual Payments	5.13	114
Statutory Appropriations	5.14	114
Statement of Budgetary Expenditure	5.15	115
Write-Off of Uncollectable Accounts	5.16	116
Deposit, Trust and Reserve Accounts — Superannuation Adjustment Fund	5.17	117

OFFICE OF THE PROVINCIAL AUDITOR

Primary Audit Responsibilities	6.1	120
Primary Reporting Responsibilities	6.2	120
Other Audit and Reporting Provisions	6.3	122
Organization and Personnel	6.4	122
Nature of Audit Activities	6.5	123
Staff Training and Professional Development	6.6	124
Meeting of Legislative Auditors	6.7	124
Examination of the Accounts of the Office of the Provincial Auditor	6.8	125

	PAGE
ACKNOWLEDGEMENTS	126

EXHIBITS

1. Province of Ontario, Audited Financial Statements, Year Ended March 31, 1980	128
2. Management Board Orders — Amounts Authorized and Expended Thereunder during the Year Ended March 31, 1980	142
3. Statutory Appropriations — Amounts Expended Thereunder during the Year Ended March 31, 1980	153
Office of the Provincial Auditor:	
4. Organization Chart	159
5. Ministry Audits and Special Reviews, Year Ended March 31, 1980	160
6. Agency of the Crown and Crown Controlled Corporation Audits, Year Ended March 31, 1980	161
7. Status of Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports	164
8. Status of Recommendations Contained in the Reports of the Standing Public Accounts Committee to the Legislative Assembly	168

1

GENERAL

1.1 Introduction. This Report has been prepared pursuant to section 12(1) of The Audit Act, 1977, as amended, which requires the Auditor's annual Report to be submitted to the Speaker of the Assembly not later than December 31st each year, provided that the Public Accounts have previously been laid before the Assembly.

The audit and reporting responsibilities of the Provincial Auditor, as set out in the Act, are explained in detail in Chapter 6 of this Report.

1.2 Timetable for Preparation and Submission of Annual Report. To comply with section 12(1) of the Act, and to allow the required time for the preparation and printing process, our annual Reports cover audits completed to the end of September. This Report, therefore, covers audit activity through the twelve month period from October 1979 to September 1980.

1.3 Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports. It is our practice to follow up on the status of suggested corrective action and recommendations at the time of our next audit of each Ministry or Crown Agency. The status of suggested corrective action and recommendations contained in our 1978-79 Report is indicated in Exhibit 7 to this Report. Exhibit 7 also provides an update on the status of corrective action and recommendations considered unresolved per Exhibit 7 of our 1978-79 Report.

1.4 The Standing Public Accounts Committee. Standing Order 91 of the Legislative Assembly requires that the Report of the Provincial Auditor and the Public Accounts be referred to the Standing Public Accounts Committee as they become available. This Committee, which is now appointed for the life of each Parliament, consists of twelve members, with party membership proportional to the respective party membership in the Legislature. As has been the custom since 1968, the Committee is chaired by a member of the Official Opposition Party.

Under the parliamentary form of government, public accounts committees play an important role in the administrative accountability of the executive arm of government to the legislative assembly. They provide the forum to which officials of ministries and agencies may be called to account for the legality and prudence of government expenditures and the establishment of proper administrative policies and procedures.

The public accounts committee uses the annual report of the legislative auditor to identify problem areas and key issues and to facilitate its review of the Public Accounts. It can serve as a guide to the elected representatives for the selection of matters which warrant further enquiry. Also, involvement of the Committee with the auditor's report and endorsement of his recommendations for corrective action can often reinforce and support the work of the auditor.

Reference was made in our 1978-79 Report (section 15) to the activities of the Standing Public Accounts Committee during the Second and Third Sessions of the Thirty-First Parliament, up to the time of the Committee's meetings on June 27 and 28, 1979 dealing with matters related to The Royal Ontario Museum.

Upon the return of the Legislature from the summer recess in the fall of 1979, the Committee resumed its activities. Five meetings were held during November and December 1979. The Committee submitted its final report for 1979 on December 20, 1979. This report was debated and declared carried in the Legislative Assembly on April 17, 1980. The Committee received the authorization of the Assembly to meet in respect of the 1978-79 Report of the Provincial Auditor during the interval between sessions. As a result, meetings were held on February 26, 27 and 28, 1980.

After commencement of the Fourth Session of the Thirty-First Parliament on March 11, 1980, the Committee held eleven meetings during the months from March to June. Arising from a resolution at the Committee's June 12 meeting, the Committee was authorized to hold further meetings subsequent to adjournment of the Legislature on June 19 for the summer recess. These meetings, which dealt with land assembly projects, were held from August 25 to 27, and were preceded by a physical inspection of three land assembly projects.

1.5 Recommendations of the Standing Public Accounts Committee. For informational purposes, Exhibit 8 to this Report provides the current status of recommendations contained in all Reports of the Standing Public Accounts Committee to the Legislature from July 10, 1975 to May 31, 1979, to the extent that such recommendations were considered unresolved per Exhibit 8 of our 1978-79 Report.

Exhibit 8 also summarizes the current status of all recommendations contained in the Committee's December 20, 1979 Report to the Legislature.

1.6 Managing by Results

Introduction

Management Board of Cabinet, as part of its central management responsibilities, establishes and supervises administrative policies, procedures, management practices and systems for the efficient and effective operation of the Ontario Public Service. In this respect, one of the initiatives of Management Board of Cabinet was the introduction in 1973 of Managing by Results (MBR). The main value of the MBR system has been stated as providing "... line managers with the means to ensure the efficiency and effectiveness of their own programs. This, clearly, is the essential foundation for ministry accountability for financial management and control".

While the Provincial Auditor has always been concerned with the accountability of government, the passage of new audit legislation, The Audit Act, 1977, which became effective April 1, 1978, formalized his responsibilities to examine and report to the Legislative Assembly on whether satisfactory systems are in place regarding economy, efficiency and the measurement of program effectiveness. Un-

derstandably, therefore, the Provincial Auditor is concerned with the status and success of the MBR system.

Implementation of MBR

MBR is a two stage process. In the first stage, a ministry commits itself to Management Board of Cabinet to the attainment of measurable targets, in exchange for the resources needed to achieve these targets. During the second stage, the ministry reports to Management Board of Cabinet on actual achievements versus target achievements, and must explain any deviations from the target.

MBR submissions to Management Board of Cabinet consist of four documents:

- (1) The Master Program lays out the basis for the program, its purposes, long-term plans and multi-year objectives and an outline of effectiveness measurement criteria, and their rationale.
- (2) The Annual Program Submission deals with specific objectives, commitments, and resources to be expanded during the fiscal year.
- (3) The Reports to Management Board are the counterpart to the Annual Program Submission. They are the manager's assessment of his program's achievement of the year's commitments and such effectiveness measurement data as is called for by the Master Program. Reports are done in two stages, a final report of a preliminary nature early enough to be used as input for the estimates process; and a final report at the end of the fiscal year.
- (4) The MBR Abstract is a synopsis of the Annual Submission, and is seldom more than one page of large type. The Abstract is presented to Ministers sitting on the Board when the program comes under discussion.

In October 1979, 95 per cent of government programs were reported as being covered by MBR. At July 1980, coverage approached 100 per cent.

Generally, our concerns with the MBR system are:

- (1) The absence of published guidelines or detailed sections in the Ontario Manual of Administration to develop a government-wide understanding and appreciation for MBR.
- (2) The absence of guidelines or directives issued to ministries requiring them, for each program, to develop procedures to identify the objectives and effects that can be measured.
- (3) The absence of guidelines or procedures whereby the responsibility for program evaluation has been assigned to a definite person or group within each ministry.
- (4) The absence of courses developed by the Civil Service Commission dealing with the matters of efficiency and measurement of program effectiveness.

More specifically, in relation to efficiency, we are concerned with the "pro-

ductivity trends" measure, in the context of our new audit legislation which requires us to report on due regard for economy and efficiency.

To measure changes in efficiency or productivity improvements, some base or standard has to be established. This base can be the actual performance during a "typical" period in the past, or an "ideal" standard. We understand that it is not the Government's intent to develop "ideal" standards.

The "productivity trends" measure used in the MBR Abstract compares the ratios of goods or services produced (outputs) to resources used to produce them (inputs) over a three-year period. This measure is weak inasmuch as there is no assurance that figures used for the base year are representative of an acceptable level of efficiency. Hence, although productivity may have increased as compared to a base year, the operation may still be inefficient.

Improvements in System

Since the introduction of MBR, primary attention has been given to implementation. The time has now come to assess and refine.

Current MBR problems noted by the Management Board Secretariat include:

- (1) Ministries and program managers look upon MBR as an additional form to be completed and intended only to benefit Management Board of Cabinet. (This is curious since MBR coverage now approaches 100 per cent of government programs.)
- (2) Results are not perceived to be very important. For example, program results are not considered in budget allocations.
- (3) Where are management time, supporting information systems and possibly other resources to be found for effective MBR processes and abstracts?

In June 1980, the Management Board Secretariat announced initiatives towards its continuing objective to further improve the overall management process in the Ontario Government. Three of these initiatives, to encourage greater economy and efficiency across the government, to encourage and increase the adoption of program evaluation across the government and to develop a written description of MBR for distribution, specifically relate to the MBR system.

A draft Plan for the Improvement of MBR in the Ontario Government has been prepared by the Secretariat for review by deputy ministers and subsequent Board approval. The key recommendation made in the proposed plan was "The Government commit itself to a three year program designed to improve significantly Managing by Results". The proposed objectives of this program were as follows:

- (1) To establish a formal results oriented program management system in all ministries for almost all government programs.
- (2) To upgrade all MBR Abstracts to meet certain quality standards. These standards are:

- (a) Clearly defined program objectives;
 - (b) Results described in terms of client benefits;
 - (c) Capability of developing inferences on productivity trends;
 - (d) Adequacy for public disclosure.
- (3) Tentative development of ministry MBR Abstracts aggregating the various program results, workload and resources into a "corporate" ministry statement of performance.

A schedule of milestones to be achieved, starting November 1980 and ending September 1983, was stated in the proposed plan.

Action at the Federal Level

At the Federal level, where a similar audit mandate is in force, we understand that Government action has taken the following form:

- (1) Treasury Board Guidelines on Program Evaluation supporting the implementation of its policy on measuring and reporting the efficiency and effectiveness of government programs. An Evaluability Assessment Task Force is helping departments and agencies to devise plans for program evaluation that take into account the extent to which programs are amenable to evaluation by appropriate and reasonable methods. Program evaluation as defined by the Office of the Comptroller General, Canada will call into question the very existence of the program.
- (2) Treasury Board directives stating that by 1980 all departments will be using adequate and reliable means, wherever possible, for performance measurement. To support this policy, managers and specialists are being trained in performance measurement.
- (3) Treasury Board Policy and Guidelines on the Management of Major Crown Projects and a number of follow-up directives establishing a firm foundation for good project management practices.

General Commentary

One of the initiatives announced by the Management Board Secretariat in June 1980 was "to encourage and increase the adoption of program evaluation across the government". In this regard, it is worthwhile noting the following recommendation made by the Special Program Review, appointed by Order in Council in June 1975:

"The Government develop a capability for evaluating specific programs selected by Cabinet for review. The evaluation team should report to Cabinet and should include members from the private sector, from the ministry or ministries involved in program delivery, and from the central agencies."

At this time, we do not know how the stated Management Board Secretariat initiatives will be carried out. Hence, we are unable to comment on whether our concerns in the area of program evaluation will be addressed.

The proposed three-year improvement program for MBR does not indicate

that, where feasible, "ideal" standards of performance for measuring changes in efficiency or productivity improvements will be developed. As previously mentioned, the present measure of productivity is weak inasmuch as there is no assurance that figures used for the base year are representative of an acceptable level of efficiency.

The improvement program should, however, address current MBR problems noted by the Management Board Secretariat and one of our concerns about the lack of published guidelines on MBR.

In reply to our request, the Secretary, Management Board of Cabinet responded to our comments as follows:

"Your description of the MBR process is essentially correct. Before commenting on the specifics of your report, I think it is worth mentioning the profound change that the MBR program has had on the style of management within government. Before MBR, control was exercised exclusively on inputs; the emphasis is now on the input/output relationship. While your report deals with the use of MBR by Management Board, there is another dimension to the program that you have not mentioned; the use of MBR within ministries. There is increasing acceptance of the need to introduce results reporting at each organizational level and some excellent work is in progress within the ministries to this end.

"The MBR reports submitted to Management Board are intended to be a natural extension of each ministry's own management reporting system. Because of the individuality of each system, it was decided that the Board should allow ministries some latitude in MBR reporting provided that certain key requirements were being met. For this reason, the Secretariat was loath to formalize the procedure unduly through the issuance of directives and manuals. This was one of the lessons that we learned from the demise of PPBS both at the federal and provincial levels. We opted instead to work with each ministry individually on the development of its own system and I think that the results that we have achieved speak for the effectiveness of this approach.

"Nevertheless, now that MBR is past its implementation stage, it may be advisable to introduce more prescriptive guidelines in some of the areas mentioned in your report. As you have noted, this is one of the issues addressed in the Secretariat draft plan for improving MBR.

"I should also mention that the draft plan will be reviewed by an inter-ministry task force before its submission to Management Board. Thus, there will be an opportunity to consider the helpful commentary in your report before finalizing the MBR improvement plan.

"With regard to productivity standards, you are quite correct in observing that the government is not pursuing the development of 'ideal' standards. There are two basic reasons for this. To begin with, the development of such standards 'across the board' would be a difficult task, one

that may in the final analysis call for more supposition than fact. For example, many assumptions would have to be made in defining an ideal standard for the cost of psychiatric care in relation to the results delivered, for the cost per dollar of retail sales tax collected or the cost per accident avoided in the construction industry. A second reason centres on our commitment to productivity improvement. We believe that the public sector must continue to improve its productivity each and every year. To set a standard could mean setting an initial goal which, once attained, would then become a limit. While the current approach to MBR does not embody the concept of efficiency standards, we do set specific productivity improvement standards in the allocation process. Thus, the overall management process does compel ministries to continually improve upon their productivity. The end result can be measured in a number of ways. For example, in 1975 our workforce comprised 87,109 people (10.6 per 1,000 population). In 1980, the workforce was only 85,523 (9.6 per 1,000 population), a reduction of 5.3%.

"We look upon program evaluation as a distinct issue. MBR is concerned with the achievement of maximum results in each program while program evaluation is a more searching examination of the continued relevance of those program results in relation to overall goals and policy, client needs, and the changing social and economic environment. Obviously, program evaluation is more than a management process issue; it involves value and priority judgements that originate from various sources often external to management. To issue a policy statement asserting that departments will perform program evaluations may be more a question of appearance than reality.

"I believe that our efforts to address program evaluation will be supported by MBR. Since Management By Results leads to the development of specific program objectives and a measure of program output in terms of client benefits or results, it becomes a logical basis for program review. It is our intention to explore this possibility further as part of the MBR Improvement Plan previously cited. The Management Standards Project is also concerned with program evaluation as a key component in a complete management system. Thus, I am quite hopeful that we will make progress on this subject, one that I recognize as an important and urgent question.

"One final procedural comment. It is correct to note that the reporting aspect of MBR does begin with an initial submission from a ministry describing the program to be covered, the long term goals, specific objectives, etc. However, it would be an exaggeration to call it a 'master program'. Perhaps, you should change the (relevant paragraph) to read:

(1) The initial program submission describes the basis for the program, the long term goals, specific objectives, the output or result measurements and any other criteria for effectiveness and efficiency.

"While the preceding comments are intended to address the issue of

MBR and program evaluation raised in your report, it should be noted that there is a more comprehensive effort now underway to improve all aspects of the management process. This includes:

- (1) The Management Standards Project — a systematic review and development of an integrated and comprehensive set of management processes for the government.*
- (2) MBR Improvement — as described.*
- (3) Capital Planning — improvements in overall planning and evaluation techniques.*
- (4) Productivity Improvement — establishing productivity improvement as a cornerstone of the managerial process.*
- (5) Allocation and Estimates Process — further improving these two planning systems.*

"In summary, we are working on a broad front to further improve the management system in government. I would be pleased to discuss this program in more detail with you and your staff."

2

COMMENTS ON MINISTRY OPERATIONS

2.1 Introductory Comments. Most of the comments contained in this segment of the Report pertain to audit observations and recommendations resulting from on-going Ministry audits and special reviews. The audits on which the comments are based were completed since the date of our last Report and are listed in Exhibit 5.

2.2 Audit Memoranda. Memoranda on the various audits and examinations performed during the year were submitted to the Deputy Minister of each Ministry concerned. Observations and comments were made on matters noted during the conduct of the audits. Included in the memoranda were recommendations and suggestions for improvement in the accounting and operating processes. The Deputy Ministers were asked to review the memoranda and to forward their comments on our findings and recommendations. This procedure provides each Ministry with an opportunity to question the position taken by this Office or to initiate immediate corrective action.

Matters which were raised in memoranda covering these audits, and which, in our opinion, should be brought to the attention of the Legislative Assembly, are included in subsequent sections of this Chapter. Not all of the subsequent comment is of a critical nature; certain comments are for informative purposes only. For the most part the caption of the section will indicate whether the content is of a critical or informative nature.

Pertinent replies received from the Ministries to the time of completion of this Report have been included for informative purposes, generally without further comment by this Office. Such replies will be reviewed during subsequent audits of the respective Ministries.

2.3 Program Delivery Improvements Recommended, Farm Tax Reduction Program, Ministry of Agriculture and Food. The Farm Tax Reduction Program was established in 1970, and has been continued on an annual basis under the authority of a series of Orders in Council. Funds are provided by the Legislature to the Ministry of Agriculture and Food, although the administration of the program is carried out mainly by the Ministry of Intergovernmental Affairs.

The objective of the program, as set forth in the 1979-80 Management by Results (MBR) book of the Ministry of Agriculture and Food, is "to reduce the burden of municipal and, in particular, school taxes on properties owned by Ontario residents . . . assessed as farms . . .". The MBR further notes that "the present assessment system does not take into account that farms are usually land intensive, resulting in unduly large education taxes." Upon application, an annual grant of 50 per cent of the municipal taxes is paid to an owner who certifies that the farm property is used in a farming enterprise, that not less than 50 per cent of the current taxes have been paid, and that farm products valued at not less than \$4,000 are produced. For the 1979-80 fiscal year, total grants paid under this Program amounted to \$46,540,950.

The Debates of the Legislative Assembly (October 6, 1970) and a subsequent statement by the Minister of Agriculture and Food indicated that the Farm Tax Reduction Program was to be an interim step to ease the tax burden on farmers, pending the completion of a major long-term program of assessment and tax reform.

A statement by the Ministry of Agriculture and Food in March 1976 (A Strategy for Ontario Farmland) confirmed that the policy "has been to relieve full-time farmers of the burden of real estate taxation on their food land". It was the Ministry's belief "that this policy will, over a period of years . . . return a substantial acreage of food land to food production".

The Report of the Special Program Review (November 1975) endorsed the policy of payment of 50 per cent of municipal taxes on farm lands as an acceptable interim measure, but recommended that "efforts continue to bring about an acceptable municipal assessment plan such that the Province can ultimately be relieved of the costs of the Farm Tax Reduction Program". The Province, in its response, stated that this and other recommendations were related to proposals under review by the Commission on the Reform of Property Taxation in Ontario.

The Commission on the Reform of Property Taxation in Ontario was established in May 1976 to review certain proposals concerning property taxation. One proposal was that farmland and farm buildings be assessed and taxed at 100 per cent of market value and the taxes be paid by the Province; farm residences would be assessed and taxed similarly to all other residences at 50 per cent of market value and the taxes paid by the owner. The Report of the Commission in March 1977 concurred in the proposal concerning farm residences but, regarding farmland and farm buildings, recommended that the farmer pay 10 per cent of the resulting property tax and the Province pay the remaining 90 per cent.

The Report noted that the operation of the current system, involving both property and income tax features, places farmers in a favourable position vis-à-vis other taxpayers and tends to result in inequities between farmers since many do not pay income tax. The Report gave the following hypothetical example of a farmer with a taxable income of \$10,000 and liable to a marginal income tax rate of 33 per cent:

	\$	\$
Gross property tax on farm property		1,000
Deduct:		
— grant received under the Farm Tax Reduction Program	500	
— reduction of income tax (gross property tax is deductible from income, grant is not taxable)	330	
— income tax credit by way of the Ontario Property Tax Credit on occupancy cost	80	910
Net, after tax, out of pocket cost to farmer		<u>90</u>

Using the example, the Report observed that, unlike other taxpayers, farmers may legally receive an income tax reduction related to a \$1,000 expense, when that expense was in fact no more than \$500. The Report considered the fault to lie in

the design of the Farm Tax Reduction Program, in that the Program failed to take account of an inadequacy in the Income Tax Act (Canada).

As at the time of our review, the recommendations of the Report of the Commission had not been implemented and the situation portrayed by the foregoing example had not been altered.

Comments and recommendations arising from our review of this program were as follows:

Legislation

1. The Orders in Council have provided that a grant paid under the program is subject to recovery when the property ceases to be assessed as a farm by reason of its development for residential, industrial or commercial purposes within ten years. The person who owns the property at the time it ceases to be so assessed is required to repay the amount of the grant together with interest at the rate of eight per cent. We noted that the Ministry's solicitor, prior to the establishment of the program in 1970, stated that there was no authority in The Ministry of Agriculture and Food Act to provide an effective means of implementing this policy. The matter was also questioned in our Report for the year ended March 31, 1973 and referred to by a Judge of a County Court in 1975 in these words; "I expressed in very certain terms my disapproval of this type of legislation by Order in Council as contrasted with it being done by regulation, so that parties that might be affected would more readily find the relevant legislation in the Regulations".

More recently, in January 1979, legal counsel for a construction firm informed the Ministry of Intergovernmental Affairs that their client did not intend to repay \$3,747 which had been demanded. Counsel had advised the client that they considered the Order in Council section to be *ultra vires*. Accordingly, we recommended that the situation with regard to the recovery of grants be addressed by the Ministry.

Effectiveness

2. We recommended that the objective of the program be restated to indicate the expected benefits of reducing the tax burden and to facilitate the measurement of those benefits. We suggested that the program's effect in the context of the extensive system of grants and subsidies from which the farmers receive financial assistance be studied to determine if, in fact, the tax reduction has any significant or worthwhile effect on productive capacity and costs. As previously mentioned, a Ministry statement has implied that an objective is to return a substantial acreage of land to food production. In our opinion, such an objective would be susceptible to measurement.

Economy

3. Since inception of the program in 1970, grants have not been made

where the municipal taxes on farm properties have been less than \$20. Since both inflation and municipal taxes have increased substantially since 1970, we recommended that a more realistic minimum be set. From statistics for the 1978 Program, we noted that grants in connection with taxes ranging from \$20 to \$100 totalled in excess of \$500,000.

4. We recommended that consideration be given to redesigning the program so as to remove the inequities cited by the Commission on the Reform of Property Taxation. Since it was proposed and recommended that farm residences be taxed as are all residential properties, the owner of farm property should be responsible for this portion of his taxes as a minimum. In this regard, the Commission noted that currently, some owners of small parcels of land, with oftentimes costly dwellings, contrive the required farm production in order to enable them to receive a grant of 50 per cent of the property tax paid on their entire property. We noted that the situation has been partially addressed in that farm houses are now separately assessed as residential where the owners themselves are not the farm operators.
5. We recommended that consideration be given to restricting the types of eligible farming enterprises. Currently, for purposes of the program, a farming enterprise means the use of farm properties for the "production of plants and animals useful to man". Accordingly, grants are being paid for some operations which are not always land intensive, such as mushrooms, bees and apiary products, nursery, floral and greenhouse products, poultry and poultry products, and fish. Alternatively, to emphasize the land intensive aspect, a minimum acreage could be established. The Ministry of Intergovernmental Affairs recently carried out an investigative review of a number of properties, 20 acres and under, for which grants had been paid under terms of the 1977 program. As a result of 1,554 enquiries, the Ministry requested 244 refunds totalling \$50,988 because the 1977 requirement for a production value of \$2,000 had not been substantiated.
6. The required annual value of farm production was stated as \$2,000 in 1970 and increased to \$4,000 in 1978 to reflect the change in the index of farm prices. We understand that the \$2,000 production value was an arbitrary figure and not supported by statistics. While there may be a case for low income farming enterprises in some areas of the Province, we suggested that \$4,000 is unrealistically low for an ongoing farming operation. In comparison, we noted that the Ontario Farm Productivity Incentive Program requires a gross agricultural income of at least \$8,000 in order to be eligible. In summary, the current gross value figure (\$4,000) appeared to be indexed to an arbitrary figure (\$2,000), and therefore is itself an arbitrary figure.
7. We were unable to determine the basis for the previously mentioned eight percent interest rate first established in 1970. We did not consider the rate to be appropriate in today's market and recommended

that it be adjusted annually by linking it to the Province's ten year borrowing rate. We were informed that this recommendation would be adopted commencing with the 1980 Program.

Miscellaneous

8. Ministry of Treasury and Economics Accounting Policy Instruction 201.1 for Public Accounts Volume 3 purposes, stipulates that "other payments" including grants accumulating to \$10,000 or more be listed by the recipient's name and amount. This has not been the practice for recipients of grants under the Farm Tax Reduction Program. From a review of the 1978 program, we noted that nine firms had received payments in excess of \$10,000 each and totalling \$157,308. We therefore recommended that, in future, this information be compiled and reported for Public Accounts purposes, as required by the Policy Instruction.

The Ministry replied to our comments and recommendations as follows on March 6, 1980:

Legislation:

1. *"While the Interpretation Act permits a Regulation to be issued under The Ministry of Agriculture and Food Act, the latter provides only for the making of grants and not their recovery. Under the circumstances, it would appear that legislation either in the form of a new Act or an amendment to The Ministry of Agriculture and Food Act would be required to ensure recovery of grants."*

Effectiveness:

2. *"While a separate report did refer to this Program as returning food land to production, its objective is to encourage the holding of land in agricultural production. Again we feel that it is an interim measure until the final decision has been made on Ontario's Municipal Taxation Policy. This is another reason why legislation for the program has not been introduced."*

Economy:

3. *"We will review the minimum taxation level."*
4. *"We understand that dwellings are being separated from farm assessment where appropriate under The Assessment Act and that the Subsidies Branch of the Ministry of Intergovernmental Affairs is drawing to the attention of the Assessment Branch, Ministry of Revenue, cases which would appear to warrant investigation."*
5. *"Reviews are undertaken by the Subsidies Branch of small acreages to ensure that it is reasonable that the minimum value is being produced. Many farming operations consist of several small properties, frequently adjacent to each other. Also, different types of farming operations require varying amounts of land."*
6. *"Our policy is to keep the gross value of production high enough to*

eliminate frivolous applications but low enough to encourage starting farmers, the aged and non-farming land owners to keep their land in food production. We feel that the income required for the Ontario Farm Productivity Incentive Program is not really comparable. Without a complex formula to determine what acreage should produce what type and amount of crop (difficult for farmers to understand and for us to administer) we feel the annual value of production approach is the most feasible method.

7. *"We intend to adopt the Province's ten year borrowing rate in programs for future taxation years.*

Miscellaneous:

8. *"The changes necessary to the computer program in order to separately record payments of over \$10,000 to individuals is being looked into."*

2.4 Multiplicity of Financial Assistance Programs, Ministry of Agriculture and Food. The Ministry's policy statement of March 1976 (A Strategy for Ontario Farmland) indicated that a number of programs are required for the encouragement of agricultural production and the preservation of farmland. During the course of a review, we expressed concern that the proliferation of financial assistance programs may have reached the point where the financial resources of the Ministry are not being allocated with due regard for overall effectiveness and economy.

As an illustration of our concern, *some* of the *major* programs under which a farmer could be eligible for subsidies are as follows:

- Farm Tax Reduction Program
- Ontario Farm Productivity Incentive Program
- Industrial Milk Production Incentive Program
- Crop Insurance Program
- Farm Income Stabilization Fund
- The Tile Drainage Act Program

A farmer may also benefit from grants to municipalities under The Drainage Act (\$5,740,500 in 1978-79) and under some of the minor assistance programs such as Grants and Subsidies re Livestock.

With some exceptions, the Ministry's costs of administering individual programs were not evident from the Public Accounts or the Management by Result (MBR) reports.

We recommended that the Ministry periodically and formally review its financial assistance in the light of recently established programs such as Farm Income Stabilization and other federally funded programs with a view to ensuring that financial resources are being allocated with due regard for effectiveness and economy. We also recommended that wherever feasible, the direct administrative cost of each program be clearly identified in the MBR reports. If possible, such infor

mation should be used to develop efficiency measurements for delivery of the programs.

The Ministry wrote to us on March 6, 1980 to advise that:

"Many of these Programs are established by Legislation. Loans are no longer available under the Industrial Milk Production Incentive Program.

"The true cost of administration is difficult to determine because a field staff employee may work on very many programs each day. We do not think it feasible to develop a cost recording system for our field staff — it would be extremely expensive. However, where direct administrative costs are readily identifiable they are reported in MBR's."

2.5 Comments on Reorganization, Ministry of Community and Social Services.

The Ministry has engaged in a massive program of reorganization during the past year, and considers the most important component of this reorganization to be the creation of the regional structure. This consists of regional and area offices in the two main service delivery divisions, Adults and Children's Services, with the Adult Services Division including local offices. The third service delivery division is the Mental Retardation Services Division which includes 17 mental retardation facilities, each of which has its own finance and administration offices. The stated intention of the Ministry is to integrate the three service divisions by 1982 and presumably this will involve further reorganization of personnel and offices. The Ministry hopes that through reorganization it can continue to strengthen community relations and increase responsibility and decision-making at the regional and local levels. The Ministry's goal is to provide improved service to the public and in the long run to reduce the waiting time of applicants for benefits, to respond more quickly to requests and to obtain a better understanding of local needs.

Since decentralization of the Ministry was well under way during our current audit, we visited area offices in two of the four regions and certain local offices reporting to the two area offices. The objects of our visits were to carry out a brief review of the work done at area or local offices and to examine the source documents for transfer payments within the program or activity selected for detailed audit. The following matters were noted:

1. Since 1973, field offices have had the authority to issue replacements for lost Family Benefits Allowances (FBA) cheques and since January 1979 they have had the authority to issue special emergency and adjustment cheques. Field workers sometimes get these cheques to deliver to recipients, and we noted either no control over them or considerable variance in the control. We noted the following types of records of cheques forwarded to field workers for delivery:
 - (a) a note of each cheque
 - (b) the field worker's signature
 - (c) an unofficial receipt form

We recommended that the delivery of cheques to Family Benefit recipients other than by mail be reviewed and that standard control procedures for the whole Ministry be established at the points where the field workers and the recipients receive the cheques.

2. Field offices sometimes receive FBA cheques which cannot be delivered by the Post Office, although the instructions on the envelopes are that they are to be returned to the sender (i.e. head office).

We noted that field offices did not cancel these cheques on receipt or before forwarding to head office. We therefore recommended that all such cheques be cancelled in the field offices. We pointed out the advantage of two persons in attendance during mail opening, but area managers interviewed rejected this suggestion because of the extra staff requirements at such times.

3. Area offices of the Children's Services Division receive licence fees payable under various acts, such as The Day Nurseries Act. We noticed in the Barrie Area Office that the office copies of the receipts for such fees are placed in the applicable facility file. Verification of this revenue would therefore be difficult without a daily cash record. We recommended that procedures for the proper recording of revenue be issued for use in all field offices.
4. Since the Ministry began to decentralize early in 1979, the area offices established under the Adult Services Division are to receive the audited financial statements of institutions for which they are responsible. We therefore contacted two area offices for this purpose and learned that they were receiving the statements of some institutions. However, we did not find any evidence that Ministry staff had reviewed the statements received, and learned from staff at the two area offices that they had received no instructions as to what to do with the statements received. We recommended that reminders be sent to all institutions failing to submit audited financial statements and that area offices be instructed as to their responsibilities in this connection.

On August 6, 1980, the Ministry replied to our recommendations as follows:

1. *"Effective April 30, 1980 all Area Offices have implemented standard control procedures with regard to delivery and signing for replacement cheques. Regional Offices are ensuring that consistent internal control practices are developed within regions."*
2. *"Standard procedures for cancellation of cheques have been implemented in all Area Offices."*
3. *"A procedure, covering this item, is laid down in the Ministry Manual of Administration. The Ministry feels this is an omission in compliance rather than a systems weakness and will ensure adherence in the future."*
4. *"Area office managers have instructed program consultants to ensure that audited statements of funded agencies are on file and to notify*

organizations who are delinquent in this respect of the legislative requirement.

"The concern of the Provincial Auditor in the area of agency audited statements and the role of the licensed public accountant under the legislation administered by the Ministry is well founded. A somewhat parallel situation exists presently in the municipal field regarding the role of the licensed municipal accountant with the result the Ministry of Intergovernmental Affairs has initiated a comprehensive review of the whole topic. This Ministry is considering the undertaking of a somewhat comparable study for the private non-profit agency sector funded under its programmes."

2.6 Administrative Improvements Recommended Re Wintario Grants, Ministry of Culture and Recreation. Grants for Wintario projects, facilities and events totalled \$62,194,050 in the fiscal year 1979-80. Guidelines have been developed in the Wintario Grants Manual to ensure the quality and uniformity of all Wintario related activities. A recent audit included a review of the procedures pertaining to the payment of Wintario grants.

Wintario grants for both capital and non-capital projects are based primarily on the estimated eligible project costs and matching private support. Payments on capital projects are advanced in instalments as the work progresses. Grants for non-capital projects are paid upon approval and are subject to adjustment when the actual eligible costs and matching support are determined.

Capital Grants

The following were noted in connection with the calculation of Wintario grants:

1. Wintario criteria state that fund-raising campaign expenses must be deducted from gross receipts as only the net proceeds will be matched. Our inspection audits revealed instances where the recipients had not complied with this requirement. We recommended that the ministry immediately circularize all grant recipients whose projects are not complete and whose donations are in excess of \$25,000 in order to determine whether the reported matching private support includes fund-raising costs. We also recommended that the Request for Wintario Capital Grant Payment form be revised to indicate both gross donations and offsetting fund-raising costs. We were advised that the Ministry is taking action on these recommendations.
2. The amount on which a Wintario capital project grant is based is determined by deducting the estimated amounts of any other provincial or federal grants from the estimated cost of the project. These amounts are adjusted later to agree with the actual amounts. We noted cases where the Ministry branch responsible for payment did not contact either the grant recipient or the governmental agencies to confirm the actual amounts of the other grants. We recommended that this information be obtained for every grant. A revision to the Request for Wintario Capital Grant Pay-

ment form to include details of grants received and receivable would be a convenient method. The Ministry agreed to obtain this information and is considering revising the form.

3. Wintario's "non-dependency principle" states that projects funded by Wintario must demonstrate the existence of support for any ongoing costs from sources other than Wintario. From discussions with Ministry staff we determined that even if a project was not considered to be financially viable, it would still be funded by Wintario as long as all other criteria were met. Funding under these conditions makes possible the expansion of an organization's facilities beyond the ability of its members to support it. As a result, operating costs would increase as would the need for members' fees. If the fees payable by each member were to increase, an ultimate decline in total revenue could occur to the jeopardy of the organization. We therefore felt that the Ministry and the members of Wintario support organizations would be best served by strict compliance with the non-dependency principle. The Ministry advised that this area is being looked at much more critically.
4. Donated land and buildings are eligible as private support for a project and in these circumstances valuation of the asset is important. We noted that only one appraisal was used in each of five projects we reviewed for this condition. We recommended that more than one appraisal be obtained where a project involves donated land and/or buildings. We understood that more than one appraisal will be obtained in future.
5. The Request for Wintario Capital Grant Payment form requires the grant recipient to itemize on a separate schedule all donations exceeding \$50. In three files examined we noted that donations of \$202,981, \$197,020 and \$159,949 were supported only by declarations from the grant recipients that these amounts had been collected. We recommended that all grant recipients be required to provide adequate documentation to substantiate the donations they are claiming as matching private support. The Ministry stated that this information will be available in future.
6. We noted two cases where profit-oriented curling clubs, which would have received no Wintario grants, were incorporated as non-profit organizations and thereby became eligible for grants. The change from a profit to a non-profit organization involved virtually no change in the scope of operations, the source of operating funds or the personnel involved. The facilities of the two clubs were considered by the Ministry of Labour to be structurally unsafe, necessitating expenditures in order to allow the continued operation of the clubs. The following is an analysis of the costs and payment responsibilities involved in the two projects.

	<u>Project #1</u>	<u>Project #2</u>
	<u>\$</u>	<u>\$</u>
Project costs at time of approval	735,458	382,000
Less: Donated land and building (at appraised value) requiring no cash outlay	345,000	133,600
Gross cash outlay	390,458	248,400
Less: Wintario Grant	378,725	209,659
Net cash outlay	<u>11,733</u>	<u>38,741</u>

By changing from a profit-oriented to a non-profit organization the former shareholders, by donating the land and building were able to reduce their cash outlays by \$378,725 and \$209,659, being the amount of the Wintario grants. The Ministry's position in this matter was as follows:

"... In accordance with the direction of the former Minister when this Ministry responded to the Ministry of Labour's closure of arenas and curling clubs under The Industrial Safety Act, some leniency was required to ensure that such ice facilities be continued to be made available. As the profit oriented curling clubs were the only such recreational facilities in the area and as the change from profit to non-profit status was deemed to turn such facilities from the private to the public domain, special considerations were made in accepting the proposals in turning the value of the facilities over from the shareholders to the public."

7. Similarly, a church, by setting up a new non-profit organization and donating land and building, was able to obtain \$91,805 more in grants than if it had applied in its own name. The church and the non-profit organization conducted the same operations both before and after receiving the grant, with the operating costs being funded by the United Way.
8. We understood that the Ministry does not require the applicants for Wintario grants to obtain tenders from more than one contractor for construction or renovation, or to award contracts based on the lowest tender. We noted that the following estimates were obtained for the building project of one grant applicant:

<u>Contractor</u>	<u>Amount of Estimate</u>
	<u>\$</u>
1	563,000
2	571,500
3	815,000 (1) partial basement
3	927,000 (2) full basement

The applicant chose the highest estimate and the amount was finalized at \$1,172,953. We therefore recommended that the Ministry require the grant recipients to obtain formal tenders on construction contracts and to give reasons for the contractor selected. The Ministry indicated that the recommendation will be borne in mind in developing the criteria for the introduction of the new program.

Wintario Grant Criteria

The Wintario "accessibility principle" is a statement that the benefits of Wintario supported projects are intended to be available to the general public. It is open to question whether this principle can always apply in the following cases:

- ethnic centres,
- private sporting clubs,
- employee fitness centres in private corporations.

We understand that the Ministry does not follow up after the project is operational to determine whether or not public accessibility and/or participation has been realized. Grant recipients are not required to submit a report indicating the degree of public participation and the Ministry generally only follows up on situations where there have been complaints about inaccessibility. Public participation can be limited or effectively discouraged by making the facilities available only at times which are inconvenient to the public or by having costly membership or initiation fees. We recommended that the Ministry require grant recipients, especially in situations where public accessibility is not readily apparent, to report on the extent of public participation. The Ministry stated that steps are being taken with the hiring of an Evaluation and Information Officer in the Capital Support Unit to ensure that this follow up takes place on a formalized regular basis.

The criteria indicate that Wintario will share up to one-half of the total capital project cost in northern and eastern Ontario and up to one-third in the rest of the province, after any other provincial or federal grants have been deducted. These divisions do not recognize the size of the population in the immediate area of each project. For example, projects in the larger centres of population such as Ottawa, Peterborough, Sudbury and North Bay, which have a larger base from which to draw private support, receive one-half Wintario sharing while many smaller centres of population receive only one-third Wintario sharing. A more equitable distribution of Wintario support would reflect several factors rather than one based strictly on geographical locations. We understood that a more equitable distribution will be incorporated in the new capital program.

The foregoing comments were reviewed with officials of the Ministry. However, no formal memorandum had been issued as at September 30, 1980, the date of this Report. Therefore, we are unable to present the Ministry's views on the subject matter.

2.7 Comments on Management and Delivery of Energy Conservation Program, Ministry of Energy. During the year, we completed a detailed review of the Ministry's Energy Conservation Program. The purpose of this Program, as described in the 1979-80 Estimates, is to reduce the rate of growth of demand for energy by inducing efficient and non-wasteful energy utilization. Delivery of the Program, together with the Renewable Energy Program, is the responsibility of the Ministry's Conservation and Renewable Energy (CARE) Group.

Energy Conservation Program expenditures, in millions of dollars, for the last three fiscal years are shown below:

	<i>Budget</i>	<i>Actual</i>
	\$	\$
1977-78 (Net)	4.6	3.0
1978-79	5.3	4.1
1979-80	7.3	5.4
	<u>17.2</u>	<u>12.5</u>

As is apparent, total expenditures for the three years were substantially less than the budgeted amounts, even after taking into consideration constraints of \$1.4 million, \$.5 million and \$.3 million respectively placed on this program by Management Board of Cabinet. A similar situation of greater magnitude was noted in connection with the Ministry's Renewable Energy Program. These underexpenditures represent failure to generate much of the planned activity for the programs.

General Summary

Based on observations made during our review, in our opinion, staff of the CARE Group were diligent and keenly interested in the success of the Energy Conservation and Renewable Energy Programs. Projects undertaken can be classified as "value-for-money" since resulting energy costs avoided have the potential to recapture and exceed project costs within a reasonable period of time.

On the other hand, the proverb "Biting off more than one can chew" may well be applicable to the CARE Group circumstances. During our review, we perceived a lack of sufficient program planning and evaluating. These problems, in our opinion, were mainly attributable to:

- (1) the lack of necessary staff to undertake current programs;
- (2) the undertaking of additional responsibilities, i.e., the Canada/Ontario Agreement and "Energy Security for the Eighties: A Policy for Ontario", when current programs were inadequately staffed.

Terms of Reference

Terms of Reference or Statement of Mandate is essentially a communicating document. It is the formal and approved expression of the long-term thrust of an organization, to which decisions at all levels of management should conform and contribute. It keeps before all managers the defined purpose of the organization, provides a background for strategic planning, and serves as a checklist for the validity of decisions. Clearly stated terms of reference therefore enhance the efficiency and effectiveness of an organization.

The Assistant Deputy Minister, Conservation and Renewable Energy, advised us that there is no explicit statement of terms of reference for the CARE Group. However, the principal framework within which the Group works is set out in numerous Cabinet submissions.

We recommended that in order to improve the efficiency and effectiveness of the CARE Group, consideration be given to establishing a clear statement of terms of reference.

Staffing

In its 1979-80 Estimates submission, the CARE Group identified a problem of imbalance between funds available for planned projects and base staff adequate to manage them. A request to transfer funds from other standard accounts to Salaries and Wages was deferred subject to later review.

Subsequently, an agreement was reached with the Federal Government on May 16, 1979 for a five-year, \$58 million, 50:50 cost-sharing arrangement for the development and demonstration of energy conservation and renewable energy technologies. Ontario's share for 1979-80 was estimated at \$1.5 million, although specific projects and related costs had not been developed or defined at the time of the agreement. A management plan for implementing the agreement was developed by a management consultant at a cost of \$27,800. As part of the study, the consultant confirmed the existing staff of 21 was insufficient for current projects and recommended additional staff to support current program efforts and undertake projects under the agreement.

Subsequent to the study and development of this management plan, the Minister issued a Government position paper entitled "Energy Security for the Eighties: A Policy for Ontario". The objectives and goals outlined in this document supplemented and strengthened those established for the conservation and renewable energy programs.

In October 1979, a Ministry submission to Management Board of Cabinet included a request for an additional 38 staff for the CARE Group to meet the current needs of:

- the existing programs
- the Canada/Ontario Agreement
- the Government policy set out in "Energy Security for the Eighties".

However, only 16 staff additions were approved in November 1979 by Management Board of Cabinet, with the understanding that further staff for 1980-81 would be subject to the report of a Ministry/Secretariat Resources Planning Task Force.

In February 1980, consultants to the Task Force recommended a further 17 staff, and approval was received from Management Board of Cabinet. The staff ceiling for the CARE Group totalled 54 at March 31, 1980.

We noted with concern that at March 31, 1980:

- The CARE Group staff was 21, the same number with which the 1979-80 year was started and found to be inadequate for current needs.
- After constraints, the budgeted expenditure of the Energy Conservation Program was substantially underspent by \$1.6 million. The Renewable Energy Program would also have been substantially underspent but for an approval on March 25, 1980 by Management Board of Cabinet to reallocate budgeted funds of \$750,000 for a loan to the Ontario Energy Corporation to make capital funding available to the Ontario Research Foundation for solar panel collector testing.

- The only amount approved and claimed in regard to the Canada/Ontario Agreement was \$13,940. However, on March 20, 1980, a listing of 27 current program projects was discussed with the Federal Government and an agreement reached to submit formal proposals on seven.

We were of the opinion that, without adequate staffing, the chances of ambitious programs such as Energy Conservation achieving any demonstrable degree of success are greatly diminished.

Program Planning and Evaluating

GOAL

The Energy Conservation Program goal is "to contribute to the reduction in the annual rate of growth in measured energy consumption to no more than 2 per cent overall, and to zero per capita for petroleum, by 1985". According to information received from the Strategic Planning and Analysis Group of the Ministry of Energy, Ontario's average annual total primary energy (for example, crude oil, natural gas, coal) growth rate for the five-year period 1974-78 (1978 consumption estimated) was 2.4 per cent. While a significant portion of the program goal appeared to have been already achieved, this could have resulted mainly from such factors as the economic down-turn, escalating energy prices and conservation actions initiated by other organizations and governments. Because of these and other external influences which impact on the growth in energy consumption, the effectiveness of the Energy Conservation Program would have to be determined by the success with which the various projects within the Program achieve their objectives. Further comments in this regard are made in the Management by Results portion of this section.

The Ontario Energy Review, published by the Ministry of Energy in June 1979, shows Ontario's primary energy consumption sources in 1978 as:

	%
Crude oil	40.7
Natural gas	22.4
Coal	14.6
Water power	12.7
Uranium	9.6

Crude oil and natural gas accounted for 63.1 per cent of primary energy consumption. A summary of this consumption by sector follows:

Sector	Crude Oil	Natural Gas
	%	%
Transportation	55	—
Residential	17	21
Industrial	12	55
Refinery use and non-energy products ...	12	—
Commercial	4	24

The Ontario Energy Review also reported that:

- In 1978 the increase in crude oil consumption was in the order of 4 per

cent over the previous year. Since 1970, consumption for transportation and for non-energy products has been growing steadily. However, the combined requirements of the Industrial, Commercial and Residential Sectors have declined.

- Since 1974, Ontario's natural gas consumption has grown only slightly and has perhaps even begun to decline a little.

We noted that individual project expenditures did not bear a related emphasis to Ontario's crude oil and natural gas consumption by sector. Although the bulk of project expenditures related to the Commercial Sector, total consumption of crude oil and natural gas by this sector is small in comparison to consumption by other sectors.

Since primary energy growth rates can be determined from statistics presented by Statistics Canada, we recommended that Energy Conservation Program goals be stated by primary energy source and by sector, showing the target reduction in growth of each source. A direction would therefore be established for the focusing of CARE Group resources on those specific energy sources which are being heavily consumed and in short supply. Projects could then be planned and undertaken which would have the most significant and immediate effects on the program goals. As previously mentioned, the effectiveness of the Energy Conservation Program would have to be determined by the success with which individual projects achieve their objectives.

MANAGEMENT BY RESULTS (MBR) REPORTING

MBR is a program management system, established by Management Board of Cabinet, which places the emphasis on results in the management cycle of planning, executing and controlling. MBR reports for the Energy Conservation and Renewable Energy Programs containing program, activity and sector goals as well as expected results for the year ended March 31, 1980 have been submitted, as required, to Management Board of Cabinet. However, another requirement is that actual results for the year should be reported within the first quarter of the following year along with explanations for significant deviations from expected results. At the time of our review, this had not been done for either of the years ended March 31, 1979 or March 31, 1980. We felt that this situation resulted from the lack of a formal procedure for project review.

We recommended that a formal procedure for project review be established, whereby findings and conclusions are evaluated and compared to planned results as set out in the MBR.

Energy Conservation Projects Activity

GENERAL

Expenditure of the Energy Conservation Projects Activity of the Program for fiscal years 1978-79 and 1979-80 is summarized as follows:

<i>Projects</i>	<i>Expenditure 1978-79</i>	<i>Original Budget 1979-80</i>	<i>Expenditure 1979-80</i>
	\$	\$	\$
Residential	221,894	515,000	708,521
Commercial	2,742,971	5,110,000	2,819,133
Industrial	128,717	105,000	1,380
Transportation	153,675	185,000	476,466
Urban Development	238,064	370,000	174,755
Communications	—	205,000	479,068
Other	3,114	75,000	97,629
	<u>3,488,435</u>	<u>6,565,000</u>	<u>4,756,952</u>

A major portion (\$3.1 million) of the 1978-79 expenditure was spent by eleven other Ministries and recovered from the Ministry of Energy. For 1979-80, the estimated expenditure allocated to other Ministries was about \$5 million and, at March 31, 1980, thirteen Ministries recovered expenditure totalling \$3.5 million from the Ministry of Energy.

The 1979 Annual Report of the Ministry of Energy indicated some energy conservation and renewable energy projects and activities being done independently of the Ministry by various Ministries. For consistency and disclosure in the Public Accounts of Ontario, we felt that the expenditures of these projects should also be charged to the Ministry of Energy.

COMMERCIAL SECTOR — ONTARIO GOVERNMENT BUILDINGS

In October 1976, with respect to the Energy Conservation Program, Cabinet required that the Ministry of Energy coordinate a five-year project to promote the improvement of energy utilization in existing public sector buildings, with an objective to achieve after five years a 15 per cent reduction in total energy use.

In February 1978, Management Board of Cabinet approved the establishment of an energy conservation staff group in the Ministry of Government Services to perform administrative, planning and record keeping functions to achieve the results specified by Cabinet. In March 1978, a multi-year plan, in 1977 dollars, was approved by Management Board of Cabinet. Highlights of the plan were:

<i>Year</i>	<i>Area of implementation (millions of square feet)</i>	<i>Reduction in Rate of Consumption %</i>	<i>Energy cost avoided (millions of \$)</i>	<i>Total project cost (millions of \$)</i>
1976-77 & 1977-78	2.00	1.5	.2	1.4
1978-79	4.50	2.2	.6	2.4
1979-80	9.75	4.3	1.4	4.9
1980-81	9.75	4.3	2.3	4.9
1981-82	9.00	2.9	3.2	3.9
	<u>35.00</u>	<u>15.2</u>	<u>7.7</u>	<u>17.5</u>

Expenditure for this one project charged to the Ministry of Energy by the Ministry of Government Services in 1978-79 totalled \$1.9 million, or 54.3 per cent of the Energy Conservation Projects Activity. Originally, estimated expenditure for

1979-80 was \$4.0 million or 60.6 per cent of total estimated project activity expenditure. Revised estimates called for an expenditure of \$3.6 million. At March 31, 1980, charges transferred to the Ministry of Energy amounted to \$1.9 million or 39.6 per cent of all project activity expenditure.

Our observations and recommendations on the CARE Group coordinating function for this project were:

- (1) The role and involvement of the responsible official was unclear. We recommended that written job procedures be established.
- (2) The multi-year plan had not been updated to reflect achievements, nor had targets been revised for those buildings/Ministries which have already attained the five-year target. In this regard, we were recently advised by the Assistant Deputy Minister, Conservation and Renewable Energy that a new multi-year plan was in draft Cabinet Submission form.
- (3) Energy cost avoidance to fiscal year 1978-79 was reported by the Ministry of Energy as \$7 million and the cost of the program in the same period as \$3.4 million, the overall payback being two to one. We noted, however, that statistical reports on energy consumption by Ministry building, which were used to determine the \$7 million savings, were received from the Ministry of Government Services without any independent assurances as to the accuracy of the information provided. We recommended consideration be given to accompanying such reports, on a test basis, by a certificate from the internal audit group attesting to their accuracy.

RESIDENTIAL SECTOR — THERMOGRAPHY AND HOME ENERGY

AUDITING PROJECTS

In October 1976, Cabinet additionally required the coordination of the efforts of the Province and the municipalities through a Province-wide program of home energy auditing and remote heat-loss sensing. In this regard, the Ministry of Energy undertook four homeowner energy conservation pilot projects. The projects were of two types:

- (1) At thermography clinics, homeowners viewed aerial thermograms (pictures) indicating heat escaping from the attics of their homes and received expert advice in identifying heat loss problems and possible solutions.

(Thermography information projects were carried out in Lindsay and Stratford in May 1977 and March 1978 respectively.)

- (2) Computer analyses of questionnaires completed by homeowners on the characteristics of their homes provided estimated costs of suggested improvements and what their energy dollar savings would be if the improvements were made.

(Computer home analysis projects were held in Brockville and Lindsay in November 1977 and June 1978 respectively. The questionnaire used in these two projects was provided by the Federal Government.)

Total cost, excluding Ministry staff salaries, of the four projects was approximately \$52,500.

Subsequently, a consultant was retained at a cost of \$50,000 to measure the effectiveness of all the pilot projects in generating conservation action. The objectives of the study were:

- (1) To evaluate the relative effectiveness of the various types of energy conservation projects conducted by the Ministry of Energy;
- (2) To evaluate the relative effectiveness of energy conservation projects conducted by the Ministry of Energy compared with projects conducted in Ontario by the Federal Government;
- (3) To provide directional guidance for the development or refinement of future Ontario Government home energy conservation projects.

The research looked at 9 communities grouped into 3 panels:

- Panel 1 — 3 communities where both the Ministry and the Federal Government ran projects.
- Panel 2 — comparable 3 communities where only the Federal Government ran projects.
- Panel 3 — 3 more comparable communities which received no government project treatment and were exposed only to background media and commercial stimulæ.

Study conclusions indicated that the return in fuel savings was between \$3 and \$4 for every \$1 spent, excluding Ministry of Energy staff salaries, on the pilot projects. No mention was made in the report as to whether these savings were between Panel 1 and Panel 2 or Panel 1 and 3 (refer to the previously stated objectives 1 and 2 of the study). The Advisor, Residential and Consumer Conservation, recently told us that the reported saving was between Panel 1 and 2 and that it was due to two effects:

- (a) people undertaking more conservation activity;
- (b) people doing a better job of what they did (e.g. proper attention to ventilation).

He further stated that the results of the comparison of Panel 1 and Panel 3 were somewhere in the study methodology. Because there was no government project treatment in Panel 3, and since the Panel 2 comparison indicated \$3-4 fuel savings, we believe that Panel 3 results should be even higher than Panel 2. Therefore, from an effectiveness point of view, Panel 3 results should be the more meaningful measure and should also have been reported.

We recommended that when effectiveness evaluations are carried out, the responsible Ministry official should prepare a summary of the strengths and weaknesses of the study and comment on the validity of conclusions reached. Additionally, the official should ensure that reported results are properly qualified.

In February 1980, the Ministry's policy proposal on a Province-wide delivery

of thermography and home energy analysis was approved. Estimated cost of the project, in 1979 dollars, over a five-year period to 1985 was \$4.9 million, including \$546,000 for the purchase of special equipment. The Ministry expects, when the proposed project is completed, to have assisted 175,000 homeowners in making their homes more energy efficient with resultant savings in energy the *equivalent* of 20 million gallons of fuel oil annually. We understood that progress towards the achievement of the program's objective will be monitored through effectiveness evaluations. Also, a monitoring program will be set up to make sure the projects are continuing to provide a useful service to homeowners attending information clinics.

Success of the Lindsay, Stratford and Brockville projects and the \$3 and \$4 fuel savings in the first year for each project dollar spent were referred to in the proposal. Success of the combined thermography and home energy analysis techniques carried out subsequently in Peterborough, Kingston and St. Catharines was also mentioned. The proposal indicated that the program did not duplicate the intent or functions of existing organizations and complemented the existing Federal Government's Canadian Home Insulation Program (CHIP).

We seriously questioned this statement since:

- (a) The Federal Government's questionnaire "Enersave for Home Insulation", which can currently be obtained by anyone calling a toll-free Heatline, provides for a computer analysis of information given by homeowners. Recommendations on fuel-saving measures, the estimated pay-back period and advice on how to get financial assistance are supplied in the analysis.

Any group, agency or company, can, in cooperation with the respective Branch of the Federal Government, provide Enersave questionnaires in bulk to its members, employees or clientele.

- (b) The Federal Government's CHIP program includes an application for the Enersave questionnaire, but this is not a prerequisite of obtaining the CHIP grant.

It was our opinion that the home energy analysis (questionnaire) component of the Ministry of Energy policy proposal is essentially a duplication of the primary service of the Federal Government's Enersave for Home Insulation Programs. Additionally, the thermography component of the proposal could have been coordinated with the Federal Government's Enersave program.

We felt that final approval for a project such as this should be based on full information. Accordingly, we recommended that the implementation of the project's home energy analysis component be reevaluated.

We were recently advised by the Advisor, Residential and Consumer Conservation, that initial overtures to the Federal Government to cooperate in the use of the Enersave questionnaire were received with the position taken that any Ontario program would have to be, and be seen to be, secondary to the Federal Enersave Program. This was found to be unacceptable to the Ministry. However, there now appears to be a willingness on the part of Federal officials to cooperate and this will be pursued.

Other Matters

Section 50.4.16 of the Ontario Manual of Administration requires that, upon completion of each consultant's assignment, a confidential written performance evaluation is to be prepared. Our review of several completed project files indicated that no performance evaluations had been prepared. The Assistant Deputy Minister, Conservation and Renewable Energy, subsequently instructed his staff to comply with this requirement.

We recommended that when such performance evaluations are prepared, copies be sent to a designated area of the Ministry. Centralized information on the past performance of consultants would be beneficial to other sections of the Ministry when the services of consultants are needed.

Project files examined did not indicate the status of consultants' recommendations. Information in this regard had to be obtained from the CARE Group official. We recommended that at the completion of each project, a report be prepared and placed on file on the status of each recommendation made by the consultant. We felt that this procedure would formally finalize accountability for the project.

Ministry policy requires that at least one performance appraisal is to be prepared each year for each employee. According to information received from the Ministry's Administrative Officer, performance appraisals had not been prepared during the period January 1, 1979 to March 31, 1980 on two key employees of the CARE Group. We were of the opinion that compliance with Ministry policy is necessary to ensure an efficient and effective organization.

On September 24, 1980 the Deputy Minister of Energy wrote to advise us that:

"Many of your recommendations are quite helpful to the Ministry's operation and are being adopted immediately. However, there are one or two areas where your staff have made observations that require clarification. Given this I hope to be able to get back to you by mid-October."

2.8 Recommendations for Improvements in Economy and Reporting of Effectiveness, Ministry of the Environment. The Environmental Approvals and Land Use Activity of the Ministry's Environmental Assessment and Planning Program includes the functions of the Industrial Approvals, Municipal and Private Approvals, Land Use Coordination and Special Studies, and Environmental Assessment sections of the Environmental Approvals Branch. Total activity expenditures in the 1979-80 fiscal year were approximately \$2.0 million (1978-79 — \$1.8 million). The ensuing comments and recommendations resulted from a recent Ministry audit.

1. Industrial, Municipal and Private Approvals

The Industrial Approvals and Municipal and Private Approvals sections of the Environmental Approvals Branch administer The Environmental Protection Act and The Ontario Water Resources Act in respect of pollution control requirements for industries, municipalities and private individuals. The main duties of these sections are to process applications for approval of plans or programs for collection, transmission and treatment of industrial wastes, and for the installation

of water and sewage systems serving the municipal and private sector. A staff of 26 processed approximately 1,000 Industrial Approval and 4,000 Municipal and Private Approval applications (excluding renewals) in the year ended March 31, 1980.

The Environmental Protection Act outlines the Branch Director's responsibility for approving plans and specifications and obtaining other information from applicants. We noted that branch personnel may also provide advisory and technical services at early design or conceptual stages, and may inspect or review major treatment installations as to efficiency of operations.

We understood that consideration has been given to prescribing fees for Certificates of Approval. In addition, we felt that consideration should be given to assessing fees in those cases where extensive consultative services are provided by staff.

Staff time is recorded in a register, but a summary of time by project or other classification is not prepared in the Industrial Approvals section. We were of the opinion that this data is necessary in a results oriented approach to program management. With such data, it may also be possible to consider the economics of engaging outside engineering services for specific projects or to alleviate peak work periods.

2. Land Use Coordination and Special Studies

The objective of the Land Use Coordination and Special Studies section is to ensure that environmental safeguards are incorporated into land use policies and programs at all levels of government and the private sector. This section reports and makes recommendations which may be incorporated in Official Plans, strategic land use plans and other official documents.

The staff complement of this section is 7. However, much of the work is performed in Regional and District offices of the Ministry. Approximately 11 employees work substantially full-time in Regions, and several work part-time in the Districts, on land use matters. These employees report to Regional Directors, and deal directly with the Ministry of Housing on routine matters.

Data was not available within the section on the volume of matters dealt with, e.g. number of Official Plans; number and types, and disposition of recommendations, etc. We felt that such information would be useful for assessing the effectiveness of the program and for exercising greater functional responsibility over work performed in Regional and District offices. We noted plans to utilize word processing equipment to record staff time (Toronto) according to project. It may also be possible to utilize the equipment to record the above additional information. We therefore recommended that this matter be reviewed.

The section conducted an "Experience '78" project to monitor the effectiveness of the land use planning process, in which a selection of files was reviewed by a summer student. The report, dated August 1978, noted that the major overall problem was the general nature of reports and the lack of a standardized format for reporting. It also noted examples of inconsistent application of guidelines among Regions, and absence of written guidelines to substantiate comments on

some less frequent areas of concern (e.g. stormwater run-off; lake capacity; buffering; and odours). We understand that additional guidelines are being prepared and that the Handbook for this program is being revised. We recommended that the Handbook contain instructions or guidelines for a more formalized, consistent format for reporting.

The Ministry subsequently responded to our comments and recommendations as follows:

"We are attempting to develop the basis for a unit cost system which would facilitate the charging of appropriate fees for environmental approvals in the future.

"It was previously recognized that there was a lack of information on the land use planning activities of the Ministry. To correct this situation a data collection and monitoring system is being developed in consultation with the regions.

"The revised Land Use Plan Review Handbook, which is being printed now, should help in achieving more consistent responses to land use planning referrals."

2.9 Matters Related to Performance Measurement and Efficiency of the Central Collection Services Activity, Ministry of Government Services. We recently completed a detailed review of the Collection Services Activity of the Ministry of Government Services. The objectives of this review included an assessment as to the appropriateness of procedures being used to report on the effectiveness of Central Collection Services (CCS), and an assessment of matters related to the efficiency/economy of CCS operations.

Background

CCS is the only agency which ministries are authorized to engage for the purpose of collecting overdue accounts receivable. Functioning on behalf of ministries, on a request basis, the agency's role, as established in the Ministry of Treasury and Economics Accounting Policy Statement number 504, is to:

- evaluate the accounts which, following concerted efforts (at least three collection attempts within three months of original billing date), ministries have been unsuccessful in collecting;
- use its expertise to maximize collection of debts owed to the Province;
- transfer to ministries the funds so collected;
- return to ministries those accounts which are uncollectable.

Collection services are not applicable in respect to amounts owing under Cost Sharing Agreements with Canada.

At June 30, 1980, there were 6,666 accounts totalling about \$5.1 million being administered by CCS. Of these accounts, 3,003 amounting to about \$1.8 million had been referred to four private collection agencies and 438 accounts for

about \$1.3 million had been sent to the Legal Branch of the Ministry. During the period April 1979 to June 1980, 1,956 accounts totalling about \$.5 million were recommended for write-off by CCS. Collections during this period were about \$2.3 million.

In reviewing their operations, senior CCS management was concerned with a number of problems, including the backlog of accounts, slow turnaround time and decreased collections during the 1978-79 fiscal year. Consequently, in February 1979, a study costing approximately \$19,000 was initiated through a management consulting group to identify means for improving the effectiveness of CCS. Study recommendations implemented by CCS included:

- (a) use of private collection agencies in certain cases, for example, peak periods and difficult situations. (Private collection agencies are now being used on an ongoing basis.)
- (b) more personal contact by telephone with less emphasis on letter collections.

Improvements to CCS operations also came from CCS initiatives in working with the Ministry systems group to develop better methods and procedures. This resulted in a procedure manual and a system of measuring collection performance by individual collector. Additionally, CCS has contacted various ministries to inform them of the services provided and the recovery results achieved.

General Summary

In our opinion, Central Collection Services is staffed with energetic, hard working personnel. Although collectors on staff are not required initially to be trained and experienced in collection methods, this weakness has been addressed by the manager in training sessions, and by a workshop for collection officers given by a business college.

The only important indicator of CCS performance presently being used, in our opinion, is the ratio of collections to total expenditures. Our analysis of the ratio revealed that, due to certain deficiencies, it presently cannot be relied on as a valid performance indicator. Corrective action required would include:

- (a) More vigorous collection efforts by the Ministry of Colleges and Universities before Student Award accounts are transferred to CCS.
- (b) Exclusion of collections made by private collection agencies from the calculation of the ratio. Separate reporting of these collections and related fees, over a period of years, would allow CCS to study alternatives, based on a comparison of their own efforts to private collection agencies.

Implementation of many recommendations made by the management consulting group as well as other actions undertaken by CCS on their own initiative have, in our opinion, improved the efficiency of CCS operations. Observations and recommendations related thereto, detailed subsequently, were provided with a view to bringing about further improvements. Our principal recommendations in this regard are summarized as follows:

1. CCS consider the economics and feasibility of having private collection

agencies use their own legal services, as appropriate, to pursue the collection of accounts;

2. CCS review their established procedures and consider the feasibility of substantially reducing the maximum period of time before stronger collection action is taken, such as referring accounts to the Legal Branch or private collection agencies;
3. CCS consider the economies of requesting ministries to route delinquent accounts between \$25-50 through CCS, with CCS acting as a conduit, for immediate transfer to private collection agencies; and
4. Consideration be given to a policy for charging interest on overdue accounts receivable.

Performance Measurement

The following performance measures are currently used by CCS in the monthly performance evaluation report and annually in the performance evaluation commitments report: number and dollar value of new accounts, dollar value of collections and the collections to expenditure ratio. By themselves, the first two are not a measurement of CCS activity since they depend to a great extent on the volume of accounts submitted to CCS by the ministries. We felt, therefore, the only significant measure of CCS performance is the ratio of collections to expenditure. This ratio over the past four years has been reported as follows:

<u>Year</u>	<u>Collections</u> \$	<u>Cost</u> \$	<u>Target ratio</u>	<u>Actual ratio</u>
1976-77	1,372,500	137,500	9:1	10.0:1
1977-78	1,507,100	147,900	10:1	10.1:1
1978-79	1,416,800	172,800	9.5:1	8.2:1
*1979-80	1,609,500	346,600	4.8:1	4.6:1

*See point (2) following, regarding cost increase and resultant decrease in ratio.

As a result of analyzing the actual ratios, we were of the opinion that, because of the following four factors, they cannot presently be relied upon as a valid performance indicator:

1. A significant portion of collections represents those on Student Award accounts. The schedule below illustrates:

<u>Year</u>	<u>Student Award collections</u> \$	<u>Percentage of total collections</u> %
1976-77	541,500	39
1977-78	655,700	43
1978-79	679,500	48
1979-80	805,300	50

Student Award accounts are generally transferred to CCS if the amounts are not repaid within 30 days of the notification from the Ministry of Colleges and Universities. Our review of a statistically drawn sample of 60 accounts received from ministries revealed that 36 (60 per cent) were Student Award accounts which had been transferred to CCS within 90 days. Consequently, CCS ratios are higher than would be the case if ac-

counts were not turned over until after three months of vigorous collection activity as required by Accounting Policy Statement number 504.

2. Up to the year ended March 31, 1979, the ratios were calculated based on collections obtained by both CCS and the Legal Branch of the Ministry, but only the expenditures of CCS were included. As a result, ratios for 1977 to 1979 are more favourable than is actually the case. Legal Branch collections during this period were:

1976-77	\$230,981
1977-78	169,937
1978-79	185,527

Expenditure information associated with these Legal Branch collections were not available.

From April 1979, Legal Branch collection costs are being maintained. Costs for fiscal year 1979-80 totalled \$149,400 and were included in the calculation of the ratio. Collections during the same period were \$176,600.

3. CCS has used the services of one private collection agency from May 1978, and an additional three since October 1979. Under current procedures, CCS pursues collection of all accounts. However, those accounts which CCS has been unable to collect are turned over to private collection agencies. Agency collections are sent to CCS less an established percentage, currently 25%, for services rendered. (No billings are made for services rendered on accounts which are not collected.)

The ratio of collections to expenditure reported has been calculated on the basis of net agency collections, rather than gross with commissions being shown in the cost column. Again, as a result, the ratio for the last two years is more favourable than is actually the case. We were recently advised that an August 1980 directive from the Policy Committee of the Ministry has requested that reported ratios reflect gross collections and commission costs.

4. CCS expenditures used in the ratio for fiscal years 1976-77 to 1979-80 were less than those reported in the Public Accounts of Ontario by \$68,744, \$76,219, \$90,573 and \$96,583 respectively. We understand that the differences were attributable to costs incurred by the Director, Special Services Branch and two support staff who administer CCS and various other areas. A portion of these costs should have therefore been prorated to CCS. Since this has not been done, the ratios are more favourable than should be the case.

In view of the preceding comments, we recommended the following in order to make the collections to expenditure ratio a valid measure of performance for the CCS operations:

1. In accordance with Accounting Policy Statement number 504, efforts should be directed at ensuring that vigorous collection attempts are made by the Ministry of Colleges and Universities before Student Award ac-

counts are transferred to CCS. Accounts transferred should then be just over three months old.

2. Commencing with fiscal year 1980-81, collections made by private collection agencies should be excluded from the calculations of the existing ratio and reported separately on a gross basis (currently 4:1) as an additional ratio. In this way, considering that private collection agencies are working on older and less collectable accounts, over a period of years, CCS would be in a position to study alternatives, based on a comparison of their own efforts to private collection agencies.
3. In future, a fair portion of the costs of the Director and his two support staff should be allocated to the costs of the CCS operations.

In addition to performance measures already being used, we suggested that consideration be given to providing senior management with additional important indicators of CCS effectiveness such as:

- (a) The proportion of new accounts and amounts received in a fiscal year that are:
 - (i) fully/partially collected in the same year;
 - (ii) recommended for write-off in the same year.
- (b) The proportion of prior fiscal year accounts and amounts which are:
 - (i) fully/partially collected in the current fiscal year;
 - (ii) recommended for write-off in the current fiscal year.

Efficiency/Economy of CCS Operations

FORMAL CRITERIA AND LEGAL BRANCH

Comments were previously made with respect to a study done to identify means for improving the effectiveness of CCS. Included in the study were recommendations that criteria be formalized for the decision to transfer accounts to the Legal Branch of the Ministry and to private collection agencies. Currently, the decision on the transfer of these accounts is made by the Manager of CCS. In our opinion, the implementation of these recommendations is necessary to ensure that CCS decisions on accounts are made in a fair and reasonably consistent manner. We recommended that management reassess their position on these recommendations.

In respect to developing criteria for accounts transferred to the Legal Branch of the Ministry, we were advised that private collection agencies have expressed an interest in being able to use their own legal services on CCS accounts. In this regard, we noted the following:

1. Legal Branch collections to cost ratios for the period April 1979 to June 1980 have averaged 1.2:1.
2. The possibility of CCS using outside legal services was discussed in January 1980 with the Director of the Legal Branch of the Ministry.
3. Section 50(8)3 of the Ontario Manual of Administration states that,

subject to certain provisions, ministries may engage the services of private sector legal counsel.

In view of the above information, we recommended that CCS consider the economics and feasibility of having private collection agencies use their legal services, as appropriate, to pursue the collection of accounts.

LENGTH OF ESTABLISHED COLLECTION PERIOD

Established procedures require that:

- (a) Accounts not collected by ministries within three months of original billing date are to be sent to CCS.
- (b) The maximum time to be spent by CCS on accounts before a recommendation is made to transfer accounts to private collection agencies or to take legal or other action, is five to six months respectively.

Thus, from original billing date, a total of eight to nine months would have elapsed before stronger collection action is taken. We felt that after three months of reasonable collection efforts by ministries, the maximum time spent by CCS is much too long. We recommended that CCS review the established procedures and consider the feasibility of substantially reducing the maximum period of time before a decision, such as to send accounts to private collection agencies, is made. More prompt use of private collection agencies could facilitate earlier repayment since:

1. Bonus schemes are generally used as incentives by private collection agencies to motivate collectors.
2. Private collection agencies employ full-time specialists to trace debtors whose addresses are unknown.
3. Employees of private collection agencies are generally more experienced in collection methods.

ACCOUNTS FOR \$50 OR LESS

In an effort to reduce the backlog and resulting workload of the Branch, in August 1979, CCS advised all ministries that since it was uneconomical to do so, collection of an account for \$50 or less would not be pursued. Further, all delinquent accounts in this category should be considered uncollectable and recommended for write-off. Reasons provided by the Branch Director for the decision were:

- a reasonable collection effort in 90 days by ministries would cost approximately \$50 per account;
- subsequent CCS effort could cost up to \$80 per account;
- up to \$130 could be spent on each account with a possibility of collecting 50 per cent of them.

As previously mentioned, the four private collection agencies being used by CCS are reimbursed on the basis of an established percentage (all at 25 per cent) of the amounts collected. Officials of one of the agencies advised us that accounts for \$50 or less would be accepted by them but, a lower limit of \$15 should be set.

In order to achieve due regard for economy, we recommend that:

- (a) CCS establish a minimum dollar limit (say \$25) for an account which its private collection agencies would process.
- (b) CCS consider the economies of requesting ministries to route accounts between \$25-50 through CCS for immediate transfer to private collection agencies. Although we realized that CCS, even as a conduit, would incur costs in maintaining control of the accounts, we felt that recoveries made could exceed these costs.

INTEREST ON DEBT

Interest is generally not charged by the government on overdue accounts receivable. Consequently, debtors would likely pay first their other accounts on which interest charges are accruing.

For accounts payable by the government, however, a recent policy, effective September 1, 1980, requires ministries to pay interest, when requested by suppliers, at 1 per cent per month on accounts unpaid after 30 days. In view of this policy, we felt that consideration could now be given to a policy for charging interest on overdue accounts receivable.

Although the preceding matters have been reviewed in draft form with officials of the Ministry's Special Services Branch, no formal memorandum had been issued as at September 30, 1980, the date of this Report. Therefore, we are not able to present the Ministry's views on the subject matter.

2.10 Weaknesses Re Technical Consulting Contracts, Ministry of Natural Resources.

Included in a recent Ministry audit was a review of the selection and awarding of technical consulting contracts relating to the Forest Management Activity. We noted the following deficiencies:

- (a) The Ministry's Administrative Manual, in conformity with the Ontario Manual of Administration section 50.4, item 8.2, requires prior written approval of the Deputy Minister if non-competitive procedures are used for the selection and awarding of technical consulting contracts where cost is estimated to exceed \$15,000. We noted three instances where contracts totalling approximately \$105,000 were awarded by waivers of tender without the prior approval of the Deputy Minister.
- (b) We also noted that a contract for approximately \$38,000 was awarded to a non-profit corporation without tender and without prior written approval of the Deputy Minister. Additionally, we noted that:
 - i) the Deputy Minister of the Ministry and the Deputy Minister of Forests, Government of British Columbia, are members of the corporation's Board of Directors, and
 - ii) three other research and technical consulting contracts, totalling approximately \$107,000, were awarded to this corporation. Of these, one contract for \$98,100 was awarded on a request from the Director of the Timber Sales Branch on the basis that this was the only com-

pany with the relevant expertise to undertake a research and development project relating to Hybrid Poplar utilization. Waiver of tender for the contract was signed by the Deputy Minister and the Minister.

We understood that as a result of our recommendation during the course of our audit, prior approval is to be obtained in future from Management Board of Cabinet before awarding contracts to this non-profit corporation.

- (c) The Ontario Manual of Administration, section 50.4, item 16, requires ministries, upon completion of each assignment, to prepare a confidential, written evaluation of the technical consultant's performance. We noted five instances of non-compliance with this provision.

We were informed that Ministry personnel were not aware of this requirement.

On September 17, 1980 the Deputy Minister replied as follows:

- a) *"Your recommendations have been noted and the appropriate officers are being advised to follow the rules announced in this Ministry's directive on Technical Consulting Services.*
- b) *"Management Board has been approached regarding contracts with this particular non-profit corporation and the following steps have been agreed upon when awarding any future contracts to them.*
- i) *where there are several sources of the required expertise, that corporation and others will be invited to submit tenders for a project;*
 - ii) *where there is no other available source of the required expertise and the contract is estimated to cost in excess of \$15,000, specific Management Board approval will be sought before a contract is awarded.*

"For your information, the corporation in question is Forintek Canada Corporation, the successor of the Eastern and Western Forest Products Laboratories which, before April 1, 1979 were part of the Department of the Environment — Canada.

"Let it also be noted that the contracts were awarded to Forintek because of a unique expertise that the Ministry could not contract elsewhere.

- c) *"To eliminate this problem, a circular is being prepared to familiarize responsible officers with the requirements of section 50.4 item 16 of the Ontario's Manual of Administration and at the same time guidelines are being set up on the expected format of this evaluation."*

2.11 Inadequate Controls over Equipment Inventories, Ministry of Natural Resources. In a July 1977 memorandum to the Ministry, we commented on the lack of progress in implementing a new perpetual inventory system to provide control over the acquisition, safekeeping and disposition of equipment. The Ministry's reply stated that a new base for equipment control and recording was scheduled for

completion by September 30, 1977, after which the old records would be reconciled with the new records. Assurance was given that the equipment control system at Head Office would receive adequate emphasis in future.

As at March 31, 1979 the Ministry had equipment with a recorded value of approximately \$28 million at District offices located within 9 Regions and Head Office in Toronto. The conclusion reached in our current audit review (completed in July 1979) was that a satisfactory perpetual equipment inventory system was not yet in effect. Our conclusion was based on the following findings:

- the 1977 physical inventory lists were not used to update the old records;
- neither the old records nor the 1977 physical listings were properly updated for subsequent transfers, purchases and dispositions;
- we were informed that not all of the 1977 listings sent to the branches in 1978 for a physical count update were returned. Listings that were returned with differences noted thereon did not show whether these differences had been resolved;
- no inventory records could be located for equipment in storage for the Land Management Program;
- a number of items could not be located when we performed a physical count at Head Office using the 1977 listings;
- during our visit to the Northeastern Regional Office, Sudbury, in May 1979 we found that an employee, appointed as inventory clerk in April 1979, was attempting to reconcile the inventory records without much success. Due to complement constraints, the records had been maintained on a part-time basis by another employee during the previous two years. Because of the incomplete state of the records and difficulties experienced in achieving reconciliation, a decision was made by the Regional Office staff to conduct a physical count of all equipment in the Region during the summer of 1979 and update their records accordingly;
- inventory records at the Aviation and Fire Management Centre at Sault Ste. Marie and Malton were also found to be incomplete or lacking for office, hangar and other equipment; and
- a number of items of equipment examined at the Regional Office and Airfield in Sudbury, at the Aviation and Fire Management Centre, District Office, Fish Hatchery, and Fisheries Research Offices in Sault Ste. Marie and at the Air Services Branch in Malton, did not have Ministry identification numbers affixed.

Because of the preceding widespread deficiencies, some of which have existed in past years, we urged the Ministry to take positive action to ensure the implementation and maintenance of a satisfactory equipment inventory recording and control system in all of the Ministry's locations across the Province.

The Deputy Minister responded to our observations and recommendations on December 3, 1979:

"The 1977 Main Office physical inventory listings referred to were corrected and updated in the summer of 1977 (using students) and became the basis for a manual card system which was fully in place and reconciled at the end of 1977. The system was operational through the summer of 1978.

"Because of the staff constraints put into effect during 1978 and the clerical workload required to maintain the manual system, upkeep of the system fell behind.

"At about this time, word processing equipment was acquired and a major part of the rationale for its installation was inclusion of the system for the storage and control of the equipment inventory. The new system requires substantially less clerical effort and, therefore, is easier to keep up-to-date.

"We are in the process of finalizing the loading of information from the manual system (12 cu. ft. of cards) into the new equipment. This will be completed by mid-December and the detail will be fully reconciled to the ledger account.

"Every effort will be made to ensure that the total system is properly maintained. The students will be used to carry out a physical inventory each summer.

"The Northeastern Regional Office, Sudbury, is expected to move to new premises in May, 1980. Presently, the equipment inventory is in four different locations in that city, as well as in Sault Ste. Marie. Due to a lack of staff, it has not yet been possible to reconcile the records following the move from Sault Ste. Marie. Every effort will be made to reconcile the inventory and affix the required identification numbers prior to the May, 1980 move.

"Regarding the other locations that you mentioned as also not having the required identification numbers affixed to their equipment, we have been advised that this oversight has now been or is being corrected. Incidentally, the equipment records for all of Main Office are maintained by Administrative Services Branch. All Ministry locations will be instructed to review their inventory records to ensure that they are up-to-date."

2.12 Motor Vehicle Management and Accounting System Deficiencies, Ministry of Natural Resources. The Ministry provides a Daily Diary for use in each vehicle to record daily mileage, details of trips, names of users and accounting codes for oil and gas cost distribution. At the time of our review, there was no central control or monitoring over the utilization and operation of motor vehicles (approximately 1,700) owned by the Ministry. We examined the utilization and cost allocation records maintained for vehicles under the control of the following:

Regional Office, Sudbury

During the 1978-79 fiscal year, one vehicle was used approximately 100 days,

and another vehicle was used for only 84 days. A review of the utilization of these two vehicles during the period May 1–July 31, 1978, showed that on 48 days of the 64 working days (75 per cent), one or both of the vehicles were not used. Instances were also noted of missing daily diary sheets and missing or late monthly summaries.

Sault Ste. Marie District Office

A review of the utilization of three motor vehicles, assigned to the Engineering Services Branch for general use, showed that all three vehicles operated on only 34 per cent of the working days during the period June 1–July 31, 1978 and 11 per cent during the period November 15, 1978–January 19, 1979. Instances were noted in the recordkeeping of:

- errors in calculating distances;
- omissions of expenditure codes for oil and gas cost distribution; and
- errors in transfers to monthly summaries.

Aviation and Fire Management Centre, Sault Ste. Marie

Inventory cards were not being maintained for vehicles at the Centre, and daily diaries were used only in a few of these vehicles. As a consequence, no vehicle utilization comparison could be accomplished. A review of the daily diary maintained for one vehicle assigned to Forest Protection during the period July 21, 1978–June 27, 1979, indicated that local gasoline purchases were made from service stations at prices up to 20 cents per gallon more than the gasoline available at the Ministry's District Office pump located in the same complex as the Centre.

Due to the varying degree of adherence to Ministry procedures in the locations reviewed, we felt that the present vehicle management and accounting system did not provide adequate inventory control, cost distribution, or a reliable basis for measuring economy of utilization on a Ministry-wide basis. We were informed that a committee, chaired by the Supervisor of the Fleet and Equipment Management Section, was working to establish a computerized fleet management program, implementation of which was not expected until the 1980-81 fiscal year. We recommended that this program include and coordinate the procedures for inventory recording, fleet operating and maintenance, cost distribution, and utilization recording and reporting.

The following reply was received on December 3, 1979:

"The Ministry is currently implementing a province-wide computerized fleet management program (target date — April 1, 1980) which will provide scheduled reports on the costs and the utilization of the fleet. Thus, both Main Office and field management will be better equipped to carry out their functions and take prompt action when deemed necessary."

2.13 Observations Re Community Priorities Projects, Ministry of Northern Affairs.

During the year, we completed a detailed review of the Community Priorities Activity of the Ministry's Northern Communities Assistance Program. Expendi-

tures for this Activity amounted to \$28.5 million for the year ended March 31, 1980.

The objective of this activity, essentially, is to assist certain northern communities that are financially unable through existing assistance programs to provide essential municipal services to their population.

Through this activity, financial assistance is provided for projects such as construction of municipal sewerage and water services, industrial park services, new and expanded airport facilities, facilities to be used for social and cultural purposes, as well as the undertaking of community economic development and project feasibility studies.

Our review dealt mainly with an examination of the planning process and the measures taken to assess the effectiveness of thirty Community Priorities projects. Comments and recommendations specific to eight of these projects were contained in our memorandum of June 5, 1980 to the Ministry. We did not find any significant reportable matters with regard to the other twenty-two projects examined.

Overall comments and recommendations resulting from our review are summarized as follows:

1. For all projects, we recommended that the objectives be clearly established and related to the program objective and an appraisal of the needs. Where feasible, the expected benefits should be stated in terms which will facilitate quantitative measurement. For example, the ultimate benefits of some projects may be stated in terms of job creation and economic growth. At some future date, it should then be possible to measure the degree of attainment of the objectives and determine the cost-effectiveness of projects. The Ministry has recently introduced a project approval form, and we recommended that the information provided by or attached to this form be refined and expanded to address these matters.
2. We saw little evidence of alternative courses of action being evaluated on the basis of benefits and costs (Ontario Manual of Administration 10-16). Particularly in the case of projects normally the responsibility of other Ministries, we felt that the option of delaying the projects should be thoroughly documented on the project approval forms.
3. Significant cost overruns occurred on some projects. We recommended that final approval be based on current and complete design and engineering information. The effect of possible future inflation should be considered separately from other cost factors. We suggested that, where possible, significant cost increases be analysed according to cause. Increases in real cost may result from under-estimation or expansion of the size or scope of the work. Realistic estimates are basic to the cost-benefit aspects of the approval process.
4. With two projects, cash flows far exceeded immediate requirements and resulted in substantial benefits accruing to municipalities. We recommended that cash flows be based on actual payments for work completed

as evidenced by invoices and progress certifications. We also recommended that, in future, agreements involving large advances include provisions requiring that any interest earnings resulting from pre-flowing of cash requirements be accounted for and treated as part of the government contribution.

On September 29, 1980, the Deputy Minister replied as follows to the preceding overall recommendations:

"As was indicated in discussions with your staff, . . . this Ministry clearly recognizes the need for improvement in project planning, management and evaluation.

"A new program and project planning process is being implemented. A new project approval process is currently under consideration for implementation prior to the next fiscal year for projects other than those subsidized by the Federal Government. In the case of jointly funded Federal/Provincial programs and projects, the approval processes will be predicated on the administrative arrangements and requirements stipulated in each Agreement. The basic principles enunciated in comments one, two and three . . . will be recognized within any new process which will be implemented. It should be noted however, that the nature of many projects is such that quantification of benefits is only possible in a very approximate and subjective basis.

"Cashflow procedures have been tightened and any new agreements which provide for advances will be dealt with as recommended."

Comments and recommendations pertinent to three of the projects reviewed, together with the Ministry responses thereto, are reproduced as follows:

City of Thunder Bay Infrastructure

In May 1974, Canada and Ontario agreed to share equally in the cost of construction of sewage system improvements in the City of Thunder Bay. The financial provisions were included in a Subsidiary Agreement with the federal Department of Regional Economic Expansion (DREE). A Management Committee, with members from both governments, was appointed to oversee implementation of the work and to fulfill other responsibilities identified in the Agreement.

The most noticeable aspect of this project was the extent to which the costs exceeded the original estimate. The overrun was funded by application of the DREE Agreement contingency allowance and by grants from the federal Canada Mortgage and Housing Corporation (CMHC) and Ontario. The allocation of funds at March 31, 1979 is summarized:

	\$
Estimated total costs per DREE Agreement, May 1974 . . .	23,218,000
Application of contingency allowance	2,503,779
Total allocation of DREE related funds	25,721,779
Additional grants by Ontario and CMHC	6,056,389
Audited costs accumulated to March 31, 1979	<u>31,778,168</u>

The Management Committee gave three basic causes for the escalation of costs:

- "1. The Northwestern Ontario Subsidiary Agreement was signed and costs were established on the basis of preliminary engineering work. Final engineering produced certain design modifications which had the net effect of increasing the overall costs. These design modifications were discussed and approved by the Management Committee.
- "2. Economic forces leading to inflation in Canada have been most pronounced in the construction industry with the result that accurate estimating has been difficult to achieve.
- "3. The sewer tunnelling industry in Ontario and in Canada was fully employed with major sewage and tunnelling jobs. There was limited interest by Canadian firms in the Thunder Bay work and the majority of bids were from American contractors. As a result, prices were affected by higher mobilization costs."

Construction delays, partly attributable to the premature cost estimates, contributed to the inflation factor mentioned in 2 above.

The evaluation process, covering all projects in the DREE Subsidiary Agreement, was being completed at the time of our review. A draft of the evaluation report, in referring to the role of the Management Committee, noted that the effectiveness of the Committee could have been improved in the areas of authorizations, progress reports, regularity of meetings and physical inspections of projects.

We noted with concern that up to March 31, 1980 the City of Thunder Bay had earned approximately \$362,000 in interest revenue on payments advanced in connection with the DREE and CMHC related grants. The City may also have acquired some additional funds through not having to spend all of the ten per cent allowance permitted by the DREE and corresponding Provincial-Municipal Agreements for administration, survey and engineering costs.

Our recommendations for future projects of this nature were:

1. Final approval should be based on complete design and engineering information. As demonstrated by this project, a realistic and complete estimate of construction costs is essential if cost overruns are to be avoided. The effect of possible future inflation should be considered separately from other cost factors. A realistic estimate is also basic to cash flow forecasts.
2. The Ministry, in conjunction with the Management Committee, should exercise close financial control so that funds are not advanced unnecessarily and overpayments are avoided. Prompt action should be taken to correct cash flow irregularities. Additionally, we recommended that, in future, agreements involving large advances should include provisions requiring that any interest earnings resulting from pre-flowing of cash requirements be accounted for and treated as part of the government contribution.

3. The availability of local contractors should be considered during the planning process. In this regard it may be possible to schedule the work so as to avoid having to bring in distant-based contractors and allow the benefits from the construction contracts to accrue to Canadian firms.

Ministry reply:

"Your recommendations have been noted and will be implemented on future projects of this nature which are administered by this Ministry."

North Bay Industrial Park

In October 1978, as part of a Subsidiary Agreement with DREE, Canada and Ontario agreed to share equally in the cost of construction of water, sewer, storm drainage and road facilities to access an industrial park site at North Bay. The estimated costs of the project, as listed by the Agreement, totalled \$10.32 million.

Certain problems affecting the implementation of the project were not resolved prior to the signing of the Agreement:

1. Although the objective was to negotiate a complete package for the 137 acre industrial park consisting of internal and external services and road access, the Agreement reached with DREE did not provide for linking the access road to Highway 11. The link to Highway 11 involves an interchange, as well as one, possibly two, grade separations for railway tracks. We understood that the Ministry of Northern Affairs continues to view the interchange as a desirable component of the Agreement but the Province is not prepared to proceed unilaterally without DREE participation. The implementation schedule of the Agreement may be greatly affected if this question is not resolved by the fall of 1980.
2. The municipality did not move to acquire a servicing right-of-way prior to the signing of the DREE Agreement and, at the time of our review, was encountering difficulties with landowners. This matter was further complicated by a requirement that an easement be established to ensure that the City derives revenue for future development and to ensure that extraordinary windfall profits do not accrue to private land holders as the result of the investment of public funds.

With respect to the planning aspects of such projects, we recommended that:

1. All elements of construction work integral to a project be considered fully during the planning process. If provision for essential work cannot be included in an agreement, then other arrangements should be made for carrying out such work prior to or coincident with the signing of the agreement.
2. The Regional and Community Branches of the Ministry be asked to investigate and comment in detail on the implementation and other aspects of projects prior to the finalization of agreements.

Ministry reply:

"Both concerns noted by the auditors continue to be under active consideration. The recommendations are accepted."

Dryden Minimal Care Home

In December 1977, the Ministry of Northern Affairs agreed to contribute \$1.2 million towards a cost estimated at \$1.5 million for planning, constructing, furnishing and equipping a home for the aged at Dryden. The home was being built by a non-profit corporation on property acquired earlier by the Ministry of Community and Social Services for \$171,000. The corporation was to assume a mortgage for the 20 per cent balance (\$300,000) to be repaid by revenues from operation of the home.

By 1979, total costs for the 52 unit home had escalated to approximately \$2.5 million. Since there had been a substantial increase in the mortgage assumed by the corporation, it seemed likely to us that the Ministry of Northern Affairs would be called upon to provide additional funding for debt retirement and/or operating costs. The Ministry has, in fact, already agreed to contribute an additional \$162,000 for furnishing half of the units plus covering some of the extra costs.

The most noticeable aspect of the project was that the escalation of costs started almost immediately after the agreement with the non-profit corporation had been signed. Tender bids for construction of the home were reviewed in early May 1978, and the lowest bid (\$1,950,380) was accepted. Other significant future costs known at that stage were furnishings (approximately \$300,000) and the architectural fees (approximately \$135,000).

We recommended that, prior to becoming committed to projects of this nature, the Ministry should insist on realistic and complete cost estimates. As mentioned previously, the effect of inflation should be considered separately from other cost factors. By doing this, the Ministry would help ensure that final approval for such assistance is based on full information.

Ministry reply:

"We question the statement 'it seems likely that the Ministry of Northern Affairs will be called upon to provide additional funding'. No additional funding will be required for debt retirement if (the non-profit corporation) can successfully press its claim against CMHC. Nor do we expect any claim for operating assistance which in any event, is not available from this Ministry. We do, however, agree with the comments regarding the need for better cost estimates."

General comment from Deputy Minister:

"In conclusion, I would like to note the fact that notwithstanding the problems and concerns which have been noted and acknowledged, all of these projects are expected to achieve their objectives and to provide services, facilities and benefits which would not otherwise have been available to these northern communities. Thank you for bringing these matters to our attention."

2.14 Inadequate Follow-up Procedures Re Bursaries, Ministry of Northern Affairs. Medical/Dental bursaries totalling \$322,500 were funded by the Ministry in the 1979-80 fiscal year. Under this program, a bursary to a maximum of \$5,000 per

year can be paid to a medical or dental student while attending university in return for the same number of years' practice in Northern Ontario after graduation. Failure to graduate or to practice will result in a demand for repayment of the bursary plus interest. Since the Ministry had no formal procedures to follow-up on the discharge of the recipients' obligations, we strongly recommended that such procedures be adopted.

The Ministry subsequently advised that:

"This recommendation will be implemented in conjunction with the Ministry of Health which is the agency responsible for the administration of this program."

2.15 Improvements Recommended Re Administration of Contracts, Ministry of Revenue. During the course of a Ministry audit, we endeavoured to review the procedures and documentation of the Management Systems Branch for the hiring of computer services. Our review was to include user requirements, procurement requests, service feasibility studies, requests for tenders, selection criteria, contracts and payment procedures. Six contracts were selected for the review, but the only documentation available for our review was represented by copies of the preceding six contracts. The Director of the Branch informed us that much of the information could not be found due to the informal procedures that were in place at the time the contracts were awarded. We felt that the Branch should have maintained complete documentation on the hiring of computer services. The Ontario Manual of Administration requires a Ministry to file, for a minimum of three years for possible reference or audit, all project documentation such as:

- data processing equipment or service feasibility studies
- Management Board Reports and exemptions from tendering
- requests for tenders
- evaluations of tenders
- tenders
- contracts or letters of agreement

Payments for most professional services are based on contracts which contain a number of provisions including a maximum price and a termination date. We found that neither the Ministry's Management Systems Branch nor the Administrative and Financial Services Branch monitors payments by individual contract to determine if they are within the maximum amount. We also noted two cases where payment was made for services performed, after the termination date of the contract, without Ministry approval for an extension. We therefore recommended that contract payment records be established so that payments on each contract are accumulated and compared with the total contract price. Other provisions of the contracts should also be monitored.

On April 8, 1980 the Deputy Minister of Revenue replied as follows:

"Prior to September 1978, Management Systems Branch operated on a decentralized project management basis. Each project leader was re-

sponsible for hiring resources based on the feasibility studies and resource requirements stipulated by user Branches. The growth in administrative responsibility related to systems projects caused Management Systems Branch to reorganize and allocate all responsibility for maintaining the documentation on the hiring of computer services to a central administrative group. The manager of this group, Manager Operations and Control, was hired in March, 1979. Formal procedures are now in place for project documentation which will be maintained on file for three years.

"Management Systems Branch provides computer services in response to requests by user Branches. Because of this, data processing equipment or service feasibility studies and specifications for resource requirements are maintained by client Branches. Staff requests for maintenance of existing computer systems do not require the preparation of a feasibility study.

"Financial and Administrative Services Branch will control contract payments by establishing a ledger to be attached to each contract on file. This ledger will indicate the maximum amount and termination date of the contract. Every invoice received for professional services will be entered on the ledger and a running balance maintained to prevent an overrun of the contract. Invoices received beyond the termination date or in excess of the maximum amount will not be honoured until an amended contract is filed."

2.16 Audit of Administration by the Government of Canada of Provincial Income Tax, Ministry of Revenue. The Memorandum of Agreement made under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 (Canada) provides, among other things, that during the term of the Agreement, Canada, as agent for the Province of Ontario, will,

- (a) collect for and on behalf of the Province the individual income tax imposed under the provincial act and remit amounts in respect thereof to the Province in accordance with the agreement; and
- (b) administer for and on behalf of the Province, the Ontario Tax Credit System enacted by the provincial act.

The Memorandum of Agreement further provides that the Province will pay an annual administration fee to Canada based on approximately one per cent of the aggregate amount of the Ontario Tax Credits in the applicable taxation year. There is no fee chargeable in connection with the collection and administration of provincial personal income taxes. During the 1979-80 fiscal year the Province received \$3.18 billion from Canada under this Memorandum of Agreement. This amount is the net of \$458.2 million for Ontario Tax Credits and \$8.7 million for administration.

Agreements, such as the above, exist with most Provinces. Included in the agreements are provisions for the audit, with certain limits, by the Provinces' auditors, of those books and records of the Government of Canada relevant to the

agreement. The Memorandum of Agreement with the Province of Ontario, in limiting the scope of audit, states that the Provincial Auditor:

"shall not examine, or be allowed to examine, or in any way review or report in respect of any of the following:

- (a) in the case of individual income tax, any aspect of a taxpayer's return other than the computation of provincial tax on the basis of the federal tax and the allocation of income, if any, that is made in respect of the Province in accordance with the provincial act and the federal act and regulations made thereunder; and
- (b) in the case of deductions at source remitted in accordance with the provincial act, any aspect of the computation thereof other than the percentage computation of the provincial share of the total amount of unclaimed deductions at source."

At the Annual Meeting of Legislative Auditors in September 1978 the role of the Government of Canada in the collection of provincial income taxes and the limits placed on provincial auditors were discussed. Two major concerns were expressed. First, the provincial legislative auditors desired additional audit assurance to support their opinions on their provincial income tax revenue and credits because the tax collection agreements for all intents and purposes prohibit them from auditing most aspects of a taxpayer's return. Second, if each legislative auditor were to audit to the extent permitted under the provisions of the agreements there would be considerable duplication of effort and unnecessary disruption for officials and staff of the Department of National Revenue, Taxation and the Department of Finance. To address these concerns, the legislative auditors agreed, early in 1979, to set up a task force consisting of representatives from the Office of the Auditor General of Canada, the Office of the Provincial Auditor of Ontario, and the Office of the Auditor General of Alberta. The actual audit work was performed by the staff of the Auditor General of Canada and the task force undertook to review this audit work commencing in April 1979.

The review by the task force covered the audit programs, audit findings and reports of the Auditor General of Canada relating to the assessment, allocation and accounting for personal and corporate income tax returns, including the various provincial tax credits, and reporting whether the concerns expressed by the provincial legislative auditors had been adequately addressed in the audit work. As results became available during the audit they were discussed on an interim basis by the members of the task force.

The report of the task force has not been issued. However, there are no indications that the personal income taxes were not correctly assessed, properly allocated and transferred by the Government of Canada on behalf of the Provinces.

As Ontario administers the corporation income taxes it imposes, participation on the task force in respect to provincial corporation income taxes is substantially in the interest of the other Provinces.

2.17 Accounts Receivable System Deficiencies, Ministry of Transportation and Communications. Section 76 of our 1977-78 Report referred to certain deficien-

cies in control over accounts receivable. As a result of a review made during the current year, we concluded that no substantial improvement had taken place. Total accounts receivable of the Ministry as at March 31, 1979 amounted to \$6,318,990. Certain of our observations are summarized as follows:

- (a) A review of accounts receivable trial balances for the period July 1978 to January 1979 indicated that these receivables had been out of balance each month, but the differences had not been shown on the monthly accounts receivable trial balances prepared for management. Some of the reasons why difficulty had been experienced in balancing were:
- errors in posting to subsidiary cards;
 - manual correction of posting errors instead of processing corrections through the bookkeeping machines; and
 - unrestricted access to the accounts receivable ledger which may have resulted in ledger cards being misplaced.

By undertaking a complete review of the March 31, 1979 subsidiary ledger balances together with copies of outstanding invoices, the accounts receivable section brought the control accounts and subsidiary ledger into balance.

- (b) Three invoices issued to a highway design consultant for recovery of overpayment of fees totalling \$9,116 were still outstanding at the close of our audit. As large payments are made to this consultant (e.g. \$920,253 during the 1978-79 fiscal year) we suggested that the right to set-off amounts owing against such payments, as provided by section 54 of The Financial Administration Act, should be utilized to discharge these and all similar contra accounts.
- (c) In certain instances construction work is performed by the Ministry for private companies. The agreements covering such work call for a deposit or bank letter of credit in the amount of the estimated construction cost. An agreement dated July 20, 1977 with a company called for a commitment of \$341,400 to cover estimated construction costs. A bank letter of credit in the amount of \$341,000 was received. Actual construction costs were \$380,181 leaving a balance payable of \$39,181 which was invoiced to the company on March 2, 1979. This amount was still outstanding at the close of our audit (July 31, 1979).
- (d) Comment was made in our 1977-78 Report that the Central Collection Services Branch of the Ministry of Government Services was not being fully utilized. Our examination during the current audit indicated that more use was being made of this agency, but in general the accounts referred to the Branch were over one year old.

The following recommendations were made, dealing with the Ministry's accounts receivable operations:

- record-keeping of, and security over, ledger cards be improved;
- aged accounts receivable reports be prepared on a regular basis. Only one report, as at December 31, 1978, had been prepared during our current audit period;

- a review be made of all accounts receivable over six months old to establish the reason for non-payment;
- a more active follow-up of delinquent accounts; the form letter presently used be supplemented by a more forceful collection letter;
- accounts receivable disputed by debtors be investigated when practical by personal contact with the debtor concerned;
- except in special circumstances, outstanding accounts be referred to Central Collection Services in a current manner, in order that the agency may have optimum success in its collection activities.

On November 20, 1979 the Ministry commented as follows:

"Monthly Accounts Receivable Trial Balances prepared for management will in future disclose any differences together with a note of the action being taken to bring the account into balance.

"The Auditor's comments (regarding overpayment of consultant fees) are well taken and steps have been taken to arrange for such 'outstandings' to be deducted in contra against accounts owing by the Ministry.

"As the Auditor indicates, construction work is sometimes performed by the Ministry for private companies. As stated, agreements covering such work call for a deposit or bank letter of credit in the amount of the estimated construction cost. In this instance the actual construction costs exceeded the estimated costs by \$39,181.00. Numerous attempts have been made to collect the balance from the developer without success. The account will be passed to the Central Collection Agency.

"The recommendations made by the Provincial Auditor are well taken and wherever possible will be put into effect."

2.18 Expenditure of Royal Commissions. Royal Commissions are defined in the Ontario Manual of Administration as investigatory bodies appointed by Order in Council under the power of The Public Inquiries Act. During the year ended March 31, 1980 expenditure was incurred in respect of 7 Royal Commissions. Expenditure detail, which is reflected in Volume 3 of the 1979-80 Public Accounts for all of these Commissions, may be summarized as follows:

<i>Subject Matter</i>	<i>Date Established</i>	<i>Status at March 31, 1980</i>	<i>Expenditure 1979-80 \$</i>	<i>Cumulative Expenditure to March 31, 1980 \$</i>
Electric Power Planning	July 17/75	Completed	895,414	5,173,804
Freedom of Information and Individual Privacy	Mar 30/77	In Process	522,748	1,500,969
Aluminum Wiring	Apr 6/77	Completed	1,431	470,530
Status of Pensions	Apr 20/77	In Process	343,888	954,265
Northern Environment	July 13/77	In Process	1,134,769	3,698,657
Confidentiality of Health Records	Dec 21/77	In Process	390,100	1,190,728
Discounting and Allowances in the Food Industry in Ontario	Aug 23/78	In Process	227,760	354,204
			<u>3,516,110</u>	<u>13,343,157</u>

2.19 Expenditure of Select Committees. Select Committees are appointed by order of the House to consider matters upon which the House desires information and assistance. During the year ended March 31, 1980 expenditure was incurred in respect of 3 Select Committees. Expenditure detail is reflected in Volume 3 (Office of the Assembly) of the 1979-80 Public Accounts, and may be summarized as follows:

<i>Subject Matter</i>	<i>Date Ordered</i>	<i>Status at March 31, 1980</i>	<i>Expen- diture 1979-80 \$</i>	<i>Cumulative Expenditure to March 31, 1980 \$</i>
The Corporations Act of the Province of Ontario and Related Acts and Regulations	June 22/65	In Process	237,266	2,065,427
Report of the Ombudsman	July 15/76	In Process	44,029	323,690
Ontario Hydro Affairs	Nov 24/77	In Process	321,687	926,105
			<u>602,982</u>	<u>3,315,222</u>

3

COMMENTS ON CROWN AGENCY OPERATIONS

3.1 Introductory Comments. The term Crown Agency for purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations, as defined in The Audit Act, 1977, as amended.

An agency of the Crown is defined in section 1(a) of the amended Act as being "an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (i) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (ii) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,
- (iii) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or
- (iv) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor's report and the working papers used in the preparation of the auditor's statement are required to be made available to the Auditor under any other Act,

but does not include one that The Crown Agency Act states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of The Crown Agency Act."

Section 9(2) of the Act provides that in instances where an agency is audited by someone other than the Provincial Auditor (those in categories iii and iv), the audit is to be performed under the direction of the Provincial Auditor, and such other auditor is required to report to the Provincial Auditor.

A Crown controlled corporation is defined in section 1(e) of the Act as "a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council."

In the case of these corporations, section 9(3) of the Act provides that in instances where such a corporation is audited by someone other than the Provincial Auditor, such other auditor or auditors are required, upon completion of the audit, to deliver to the Provincial Auditor a copy of the audited financial statements together with a copy of the report of their findings and recommendations to management (i.e. management letter). Additionally, the Provincial Auditor has access, if required, to the working papers and other documents related to the audit of such corporations.

A listing of agency of the Crown and Crown controlled corporation audits, by category, for the year ended March 31, 1980 is included as Exhibit 6 to this Report.

In addition to the Crown controlled corporations included in Exhibit 6, there exist certain other such corporations whose enacting legislation does not contain any audit provision. In the case of these corporations, their revenue is not retained, but is deposited directly into the Consolidated Revenue Fund of the Province. Expenditures of these corporations are paid by Ministries out of moneys appropriated therefor by the Legislature. As a result, these corporations have no assets or liabilities for accounting purposes. Examples of such corporations are the Liquor Licence Board and the Niagara Escarpment Commission. It is our current practice to audit their transactions as part of our Ministry audit process.

3.2 Method of Audit Reporting. A report was prepared on each agency of the Crown audit performed or directed by our Office during the year, and was submitted to the agency involved and to the responsible Minister. Observations and comments were made on matters noted during the audits. Included in the reports were recommendations for improvement in the accounting and operating processes. Additionally, in the case of Crown controlled corporations which are audited by other auditors, such auditors are now required to send this Office a copy of their management letters upon completion of their audits.

Matters raised in the foregoing reports and letters which, in our judgment, are of interest or significance to the Legislative Assembly are included in subsequent sections of this Chapter. Not all of the subsequent comment is of a critical nature; certain of our comments are for informative purposes only. Generally speaking the caption of the section will indicate whether the content is critical or informative.

In cases where replies have been received to the audit findings and recommendations contained in subsequent sections, relevant portions thereof have been included for informative purposes, generally without further comment by this Office.

3.3 Newly Established Crown Agency. The Residential Tenancy Commission was established pursuant to the terms of The Residential Tenancies Act, 1979, Part VIII, which essentially came into force on August 17, 1979. The Commission is to serve as an impartial agency to which landlords and tenants can turn to resolve disputes which may arise between them; to administer the Rent Review provisions of the Act concerning the review and control of rent increases; and to advise and assist landlords and tenants on all aspects of residential tenancies.

In accordance with section 88 of the Act, expenditures of the Commission to March 31, 1980 were paid out of the Consolidated Revenue Fund of the Province (i.e. statutory). Thereafter, expenditures of the Commission are to be paid out of monies appropriated therefor by the Legislature.

The Act requires the accounts of the Commission to be audited by the Provincial Auditor or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose. Pursuant to our appointment, our initial audit of the Commission was completed for the period from its inception on August 17, 1979 to March 31, 1980.

3.4 Inactive Crown Agencies. At the time of our 1978-79 Report, only one agency, the Ontario Deposit Insurance Corporation, was inactive. As at the current

date, the situation is unchanged. As indicated in Section 85 of our 1978-79 Report, we were advised on August 8, 1979 in a letter from the Minister of Consumer and Commercial Relations that:

"There is still the possibility that O.D.I.C. may be called upon to protect depositors with financial institutions. Accordingly, any decision with regard to the future of O.D.I.C. is being deferred to a later date."

Another agency, the North Pickering Development Corporation, became inactive during the 1979-80 fiscal year. The duties of this Corporation, established under The North Pickering Development Corporation Act, 1974, were to prepare the Plan for Development and develop the North Pickering Planning Area in accordance with the Plan. During the fiscal year ended March 31, 1979, the Corporation ceased operations, and responsibility for the administration and development of North Pickering lands was transferred to the Ontario Land Corporation. On May 22, 1979, the Corporation realized all of its assets and discharged all of its liabilities.

As to the current status of this inactive agency, we were advised by the Deputy Minister of Housing on September 18, 1980 that:

"An act to repeal The North Pickering Development Corporation Act, 1974 was drafted and reviewed and approved by the Legislative Committee of Cabinet in April 1979."

"At that time and on subsequent occasions the Minister of Housing has felt it inappropriate to present the Repeal Bill to the House. The current situation is not such as to change the Minister's view."

3.5 Apparent Conflict of Interest, The Centennial Centre of Science and Technology. The objects of The Centennial Centre of Science and Technology (Ontario Science Centre) include the conduct and portrayal to the public of an educational program in the origins, development and progress of science and technology, their relationship to society, and the role of Ontario in the furtherance thereof. As at September 30, 1980, the date of this Report, our final audit for the year ended March 31, 1980 was in process. However, the matter covered in the ensuing paragraphs was formally reported to the Chairman of the Centre's Board of Trustees on November 7, 1979.

On January 26, 1979 two employees of the Ontario Science Centre notified the Deputy Minister of Culture and Recreation and the Centre's management that they intended to have a company which was wholly owned by them submit a tender for the Centre's non-food concession. Management sought informal legal opinion to determine if any conflict of interest existed. Based on the information provided, the Ministry's legal opinion (verbal, January 1979) was that no conflict of interest existed.

On May 28, 1979, tenders for the concession were received and, in the opinion of the tender committee, the best submission was made by the employees' company. The next day, on May 29, 1979, the Board of Trustees passed a motion which stated that the contract for the science shop sales concession should be given to

the employees' company, under the condition that the Director General obtain a written legal opinion from the Ministry lawyer stating that there was no conflict of interest on the part of the Board of Trustees and on the part of the Science Centre.

On June 1, 1979, the Director of Legal Services, Ministry of Culture and Recreation rendered his opinion that the employees did have and continued to have a conflict of interest, and the only way they could have avoided an allegation of a conflict of interest would have been for both of these gentlemen to have resigned as employees of the Ontario Science Centre on January 26, 1979. The Director of Legal Services further stated that it was important that not only must the Ontario Science Centre be convinced that no conflict of interest situation existed at the awarding of the tender, but it must also be assumed that there was no appearance of the existence of a conflict of interest situation.

On June 7, 1979, the Centre's management sought an additional opinion from the Director of Legal Services regarding the existence of a conflict of interest on the part of *only* the Board of Trustees, should they decide to award the contract to the employees' company. In the opinion (June 20, 1979) of the Director of Legal Services there was no conflict of interest on the part of the Board of Trustees.

On June 12, 1979, the employees' legal counsel advised the Centre that they disagreed with the opinion of the Ministry's legal counsel and in their opinion the employees did not have and do not now have a conflict of interest.

The Board of Trustees also requested advice from the Minister of Culture and Recreation in regard to the awarding of the contract, and on July 11, 1979, the Minister, under signature of the Deputy Minister, replied that in light of an additional legal opinion received by the Ministry, he could find no reason to overrule the Board of Trustees' proposed award decision.

This reply was based on a legal opinion (July 4, 1979) from the Deputy Attorney General which stated that, although the employees *were* in a conflict of interest within the meaning of section 33(1)(b) of Regulation 605/73 enacted pursuant to The Public Service Act, from the employees' perspective, they had complied fully with section 33. The employees sought an opinion from the Director of Legal Services and were advised that they could do what they wished to do, provided they complied with section 33. They did advise their Deputy Minister of their proposal to tender on the contract. The Deputy Minister provided them with no advice. In the view of the Deputy Attorney General, if the Deputy Minister was of the view that there was a conflict of interest, he should have advised the employees pursuant to section 33. The Deputy Attorney General also stated that the time may have passed when objection could be raised.

Section 33 of Regulation 605/73, enacted pursuant to The Public Service Act, states:

- 33(1) A public servant shall not engage in any outside work or business undertaking,
- (a) that interferes with the performance of his duties as a public servant;

- (b) in which he has an advantage derived from his employment as a public servant;
 - (c) in which his work would otherwise constitute full time employment for another person; or
 - (d) in a professional capacity that will, or is likely to, influence or affect the carrying out of his duties as a public servant.
- (2) Whenever a public servant considers that he could be involved in a conflict of interest in that he might derive personal benefit from a matter which in the course of his duties as a public servant he is in a position to influence, he shall disclose the situation to his deputy minister, agency head or minister, as the case may be, and shall abide by the advice given.
- (3) Whenever a public servant considers that he could be in a position of conflict with the interests of the Crown arising from any of his outside activities, he shall disclose the situation to his deputy minister, agency head or minister, as the case may be, and shall abide by the advice given.
- (4) Contravention of any of the provisions of subsection 1 or disregard of the provisions of subsection 2 or 3 may be considered as cause for dismissal.

The Deputy Attorney General recommended that the Board of the Ontario Science Centre should be left to make its own decision.

The employees in question submitted their resignation effective July 20, 1979 and a three year agreement (September 1, 1979 to August 31, 1982) between the employees' company and the Centre was signed on July 21, 1979.

During the course of our audit, we noted that in November of 1978, these two employees requested and received permission to travel to seven cities throughout the United States, at the Science Centre's expense, in order "to gather information about the operation of science museum stores at major centres, in order to prepare a report which will form the basis for recommendations to be made about the tendering and operation of the Science Centre's store".

The request for this study was made by the two employees and approval was given, even though their jobs at the Centre did not appear to have any bearing on the operation of a museum store. The research was conducted during December 1978, and two reports were issued in January 1979.

The involvement of the two employees in determining the basis for the tendering and operation of the science store was not disclosed to the Director of Legal Services of the Ministry of Culture and Recreation, nor to the Deputy Attorney General and their conclusions were made without the benefit of this information.

It appeared that the basis for the Board of Trustees' decision to ignore the employees' conflict of interest was that the Board itself was not in a conflict of interest situation. In our opinion, the only conflict of interest which had a bearing

on the awarding of the concession was the conflict of interest of the employees. In any award situation, it must be assumed that the Board of Trustees is not in conflict of interest; otherwise, they should remove themselves from the awarding process.

Furthermore, in our opinion, the information that the employees in question were the researchers and the writers of the report which outlined the basis for the tendering and the operation of the Science Centre store should have been given to the Board's legal counsel before his opinion was sought.

We recommended that the propriety of this transaction be subject to further review.

On September 15, 1980, the Minister of Culture and Recreation supplied us with correspondence dealing with the status of the preceding situation. Such correspondence is summarized as follows:

On April 22, 1980, the Chairman of the Board advised the Minister that:

"The Board of Trustees obtained a legal opinion as to the propriety of their action in awarding the contract. There is ample evidence that the selection committee acted in good faith accepting what they believed to be the best bid.

"It would be expected that any applicant for the concession would have had sufficient knowledge as to the operation of this type of facility to make a competitive bid. It was therefore not felt that the bid submitted by (the successful firm) would be made with any greater inside knowledge than that available to the previous concessionaire . . . (who declined to bid) or any of the others already conducting similar business."

In reply thereto, on July 10, 1980, the Minister wrote to the Chairman of the Board as follows:

"Your explanation regarding the awarding of the non-food concession in 1979 is inadequate. I am quite aware that several benefits have accrued to the Science Centre as a result of this award. Sales, profits and revenues are substantially improved over the previous experience . . . and the public is much better served. As a result, the concession will likely be viewed as more valuable when re-tendered, presumably resulting in a better deal for the Crown. For these reasons, I do not feel it is appropriate to cancel, or shorten the duration of, the contract for any reason inconsistent with its basic terms and provisions.

"Nevertheless, it is an established fact that the two former employees in question did have very significant and special advantages in the process leading to the award of the concession contract. Further it was, amongst other circumstances, the failure of your staff to advise of the detailed involvement of the 2 staff members in the development of the tender documents which led legal counsel to underestimate the inherent special advantages. Although there was no conflict of interest on the part of the Board, there clearly was a lack of adequate supervision of business practices integral to the operation of the Centre.

"At the time I was apprised of this matter, I frankly considered a cancellation of the contract in view of the string of incorrect considerations and decisions which had been given or taken. However, by this juncture, a charge of breach of contract, with legal suit ramifications, was probable. In view of the finite term of the contract, it seemed clear that no permanent advantage was involved, providing that proper procedures were used in the next tendering process.

"You simply must not permit any special advantages in favour of any parties when the contract is re-tendered. Of course, in no circumstances can any consideration be given to an extension of the current contract without a thorough and open tendering process.

"In addition, I wish you to submit to me your plan for handling the next tendering cycle at least 9 months in advance of the end of the current contract. These will be examined by a committee . . . who will recommend on their adequacy."

On July 21, 1980, the Chairman of the Board wrote to the Minister to advise him that:

"Your comments with respect to the awarding of the non-food concession . . . are accepted. We will contact the Committee you have nominated . . . not later than November 30th, 1981, with next tender documents."

3.6 Improvement in Physical Security of Computer Facilities Recommended, Liquor Control Board of Ontario. The Board's audited financial statements for the year ended March 31, 1980 are reproduced in Volume 2 of the 1979-80 Public Accounts. The Board has an IBM 370/135 computer on which they process data principally relating to store orders and requisitions, perpetual inventory records, warehouse inventories, store sales reports and related cash transactions.

Some laxity in restricted access to the computer room was noted. We suggested that some form of physical access control mechanism, such as a cypher lock, be installed at the entrance to the computer room. Such mechanism would:

1. limit access to those entitled to be there, and
2. impress upon the staff the overall importance of physical security.

We felt that the amount of money involved in instilling this sense of security in the staff would be well spent.

We also noted that the off-site tape storage room does not have smoke or fire detection equipment installed. Loss of these tapes would impair the day-to-day continuity of the processing of data. We suggested that this matter be reviewed.

The following comments were received from the Board's General Manager on November 19, 1979:

"Security of the Data Centre was reviewed approximately one year ago. At that time certain changes were made to limit entrance to the Data

Centre to authorized personnel only. We did not feel that installation of a physical access control mechanism was justified or necessary and therefore we did not pursue it. We shall now reconsider our decision and again investigate and possibly install such mechanism.

"In regards to the off-site tape storage room, we have already asked our Building Maintenance Department to investigate the possibility of installing fire and smoke detectors."

3.7 Unauthorized and Other Questionable Expenditures, Liquor Licence Board. Per Volume 1 of the 1979-80 Public Accounts, the Board's revenue and expenditure for the year ended March 31, 1980 amounted to \$122,760,766 and \$6,629,900 respectively. Revenue is deposited into the Consolidated Revenue Fund, and expenditures are paid out of moneys appropriated by the Legislature.

The Liquor Licence Board is required to abide by the provisions of the Ontario Manual of Administration. A recent examination of the Board's records revealed several expenditures to be unauthorized or contrary to guidelines contained in the Ontario Manual of Administration. Instances noted, together with our resulting recommendations, are summarized below. Pertinent sections of the reply from the Deputy Minister of Consumer and Commercial Relations, dated August 6, 1980, are also reproduced.

1. We noted that ever since his appointment as a full-time member of the Board in 1976, the Chairman has been reimbursed for costs incurred in travelling approximately 450 kilometres weekly to and from Toronto and his home in Union, Ontario. Costs reimbursed by the Board are, currently, in excess of \$2,500 per annum.

The Chairman's salary is established by Order in Council. There was, however, no Order in Council authorizing reimbursement of the commuting expenses noted above.

We recommended that an Order in Council be obtained authorizing the payment of the Chairman's commuting expenses.

Ministry reply:

"In reviewing this observation it was discovered that although the payment of the Chairman's expenses had been agreed on at the time of his appointment, there was in fact no documentation of the arrangement. We have therefore obtained Order-in-Council approval of the Chairman's expenses and would refer you to Order-in-Council Number 1888/80, approved June 24, 1980."

2. The executive director has been supplied with a Board automobile on a full-time basis since September 1976. Generally, within the Ontario Government, motor vehicles are supplied to executives with the status of Deputy Minister. It was, therefore, not clear what authority existed for granting the use of a Board vehicle to the executive director.

Additional observations were as follows:

- the executive director used personal credit cards regularly to purchase gasoline and pay for maintenance, although he was in possession of a government credit card. The Ministry's internal directive, dated August 1978, prohibits the use of personal credit cards in the purchase of gasoline for government-owned vehicles;
- no charge has ever been made to the executive director for private use of the automobile, nor has an amount for personal use been calculated and disclosed as a taxable benefit for income tax purposes by the Board.

Accordingly, we recommended that a review be made and authorizations documented by the Board and by the Ministry re:

- (a) the granting of a Board automobile to the executive director;
- (b) his regular use of personal credit cards for the purchase of gasoline; and
- (c) non-disclosure of personal use of the automobile as a taxable benefit for income tax purposes.

Ministry reply:

"We have reviewed this recommendation with the Board and it is apparent that the Board unknowingly erred in approving the use of an automobile by the Executive Director for his personal use. We are advised, however, by the Board that the Executive Director paid for gasoline used on his personal mileage. Since receipt of your audit, this automobile has been taken out of service and has been or will be transferred to the Ministry of Transportation and Communications for disposal. The Executive Director is now using his own automobile and submitting mileage for travel on Board business. This approach will remove your concerns about his regular use of personal credit cards for the purchase of gasoline. Further we understand that the Executive Director has had discussions with Federal Income Tax officials concerning his personal use of the automobile and we believe that these discussions will result in a satisfactory resolution of any aspect of your concern in that regard."

3. An examination of expense claims submitted by the Chairman, executive director and director of administration revealed that the Board had not developed and published standards and guidelines to regulate hospitality and meal expenditures in accordance with section 60.2 of the Ontario Manual of Administration. One matter of concern highlighted by our review related to meal costs, which we considered excessive when compared to other ministries or agencies. We noted instances as follows:

Lunch for 2 persons	\$ 48
Lunch for 3 persons	47
Dinner for 4 persons	142
Dinner for 5 persons	120
Dinner for 19 persons	958

The last item represented dinners provided at an inspectors' seminar held on November 14, 1979, which included alcoholic beverages averaging \$34 per person.

We recommended the establishment of guidelines to regulate travel, meal and hospitality expenditures, in conformity with principles outlined in section 60.2 of the Ontario Manual of Administration.

Ministry reply:

"The Ministry does have general guidelines on travel, meal and hospitality expenses which apply to the Board in normal circumstances. However, as the Board operates on a daily basis in the hospitality industry, situations frequently arise in which staff meet with their client group in establishments which are not of their choice. Board employees are directed to pay for such meals in order to avoid any conflict of interest. In these circumstances the Board employees may become involved with meal costs which are beyond the normal limit. Having said that, we share your concern about what appeared to be excessive costs in some instances, and we are advised that the Board will monitor meal and travel expenses more closely in the future. The Board agrees with the Auditor's observation regarding the Inspectors Seminar. The hospitality costs were excessive as the supervisor responsible for the seminar did not exercise proper judgment. We are advised he has been severely reprimanded."

4. Effective April 5, 1979, six employees were suspended from duty, without pay, pending disposition by the courts of charges of breach of trust. One employee was on sick leave at the time of his suspension. He was reinstated to the payroll and continued to be paid on a full-time basis. We were unable to examine his medical certificate. We were advised that the certificate was on one of the several files seized by the Ontario Provincial Police for investigation purposes.

In May and June 1979, four other employees submitted medical certificates. Based on the aforementioned precedent, these employees were reinstated to the payroll on a full-time basis. We noted a significant deficiency in the Board's follow-up procedures to monitor the employees' continued illnesses, in that two of the medical certificates did not clearly indicate the duration of the illness and the other two had expired during August 1979. It was only as a result of our audit that new certificates were obtained in February 1980 for the two certificates that had expired. These new certificates indicated that the employees were re-examined in February 1980. The certificates failed, however, to clearly specify whether the employees had been re-examined immediately after their certificates expired in August 1979.

We recommended that the Board obtain properly completed medical certificates from the respective physicians of the five employees reinstated to the payroll. Without such evidence, there is no assurance that the payments to the employees have been properly made.

Ministry reply:

"We are advised that medical certificates which were not available at the time of the audit have now been provided to the Auditor. With respect to the quality of some of the medical certificates, we are advised that the Board was guided in its actions by the judgement of the Medical Advisor to the Liquor Control Board of Ontario. This doctor did not believe it was appropriate for him to challenge the judgement of the employees' personal physicians and go behind the statement contained in the letters from such physicians. We have discussed this practice with the Board and it is agreed that in future there will be a more careful monitoring in checking of medical certificates applied in respect of employees who are absent for extended periods."

5. In connection with (4), the following additional anomalies were noted:

- One of the six employees, a manager, continued to have the use of a Board automobile, although he had not been performing the duties of his office since April 5, 1979. All operating costs for the vehicle were paid by the Board. At the end of each month the employee submitted a statement of kilometres driven and reimbursed the Board at the rate of 11¢ per kilometre. The Board's average operating costs for one of its leased vehicles are approximately 14¢ per kilometre.
- Four of the six employees have continued to receive a monthly allowance of \$40 for use of office space in their homes to facilitate duties of the Board. However, since April 5, 1979, they have not performed their regular duties.
- In connection with the investigation of the charges laid against the six Board employees, it has been necessary for the investigating officers of the Ontario Provincial Police to conduct interviews with various members of the Board's staff. These interviews have been conducted in the presence of a lawyer retained on a continuing basis by the Board to provide advice to management and staff. The lawyer has been paid \$100 per hour, with payments to December 31, 1979 amounting to approximately \$5,000.

We recommended that these matters be reviewed and appropriate authorizations documented by the Board and the Ministry.

Ministry reply:

"With respect to the decision of the Board to allow an employee the continued use of a Board automobile while under suspension, we are advised that the Board acted out of compassion and having regard for the circumstances at that time. The Board points out that the employee was extremely ill with a heart condition and his doctor advised that he should have transportation in order to avoid fatigue. At the time the Board made its decision, although the employee had been suspended pending his trial, they considered that in view of his long service, the possibility that he might be acquitted, and his serious health condition, they were justified in entering into an arrangement which they believed did not

result in any additional cost to the Board. The automobile he was allowed to use was under lease to the Board and an initial effort was made by the employee to buy it from the lessor. The lessor was not prepared to sell until the lease ran out. Arrangements were therefore made for the employee to use the automobile on the same reimbursement basis as other employees using leased vehicles are permitted to use them. Due to the low mileage put on the vehicle during the balance of the lease, the resale value was enhanced. The Board calculates that the lease cost of the vehicle during this period was \$2,174.60 while the Board recovered \$2,292.33 from the employee and from the enhanced rebate on the disposal of the automobile.

"With respect to the continued payment of the monthly allowance for the use of office space in their homes to six employees, we are advised that when the Board initially considered the cost of removing office furniture from the homes shortly after the employees were charged, the conclusion was reached that the cost of removal and storage would likely exceed the cost of rental payments. Once again since the Board at this time had no way of being sure that the employees would in fact be convicted and terminated from employment, they thought the more economic course of action was to leave the furniture in place and pay the rental. As events transpired the numerous postponements of trials, some of which were at the request of the Crown, the economics of the original decision changed. The Board agrees that with hindsight, it would have been advisable to remove the furniture at the time of the suspension. Since receipt of your report this has been done.

"The decision to retain counsel to advise the Board arose out of the Board's concern that the allegations concerning the conduct of some of its employees might involve it in matters with licencees and they wished to be properly advised by counsel experienced in litigation. The Board advises that they were not aware of the requirement that such counsel should have been retained through or in consultation with the Ministry of the Attorney General. Now that this procedure has been drawn to their attention, we are sure that any subsequent retention of counsel will comply with these requirements."

3.8 Further Safeguards Warranted Re Works of Art on Loan, The McMichael Canadian Collection. The objects of the McMichael Canadian Collection, established as a corporation without share capital, include the operation of the Collection as an exhibit for the benefit of the public and the preservation of the corporate lands as a permanent site for a public gallery and related facilities for the Collection. As at March 31, 1980, total assets of the Collection's general and special funds amounted to \$722,473, with offsetting liabilities and fund balances.

Although for accounting purposes, works of art are reflected on the Corporation's balance sheet at a nominal value of \$1, the accumulated value of such works was in excess of \$8 million as at March 31, 1980.

Certain of the Corporation's works of art are received from time to time by way of donation. The Corporation acquires full title to these works, and the donor receives an income tax receipt for the assessed value of the donation. In some cases, these works of art are then loaned back to the original donors for an indefinite period. We observed that no formal loan agreements exist for such loans.

To ensure proper safeguard of the Corporation's properties, we recommended that a formal loan agreement outlining the terms of the loan and responsibilities of the respective parties be signed by the parties involved.

The foregoing comments were contained in a report sent to the Corporation on September 19, 1980. As at September 30, 1980, the date of this Report, the Corporation had not had sufficient time to respond. We are therefore not in a position to present the Corporation's views on the subject matter.

3.9 Unlocated Equipment, The Ontario Educational Communications Authority.

The principal objects of the Authority are to initiate, acquire, produce, distribute, exhibit or otherwise deal in programs and materials in the educational broadcasting and communication fields, and to engage in research in relevant fields of activity. As at March 31, 1980, the assets of the Authority totalled \$11,162,988 with offsetting liabilities of \$5,740,263 and equity of \$5,422,725. For the 1979-80 fiscal year, revenue, including grants of \$20,672,964 from the Province of Ontario, amounted to \$23,953,765. Expenses, including fixed assets purchased from revenue, totalled \$24,025,673.

During the year the Authority introduced a new computer control system in order to update the control system over fixed assets. Information was transferred from a variety of manual records to the computer system and physical counts were done over a period of time to verify the information. The listing produced as at April 11, 1980 revealed that 201 out of approximately 3,250 items did not have a location listed. Of these, 120 items, including 3 colour televisions, 6 typewriters, 11 calculators and 12 colour monitors, could not be located as at the middle of July 1980.

As part of our audit we tested the accuracy of the remaining items for which locations were noted on the records. Our test sample of 15 selectric typewriters and 20 video cassette machines revealed that 3 typewriters and 7 video cassette machines were not in the location indicated by the records, and that an additional 3 typewriters and 6 video cassette machines could not be located.

To prevent such occurrences in the future and to gain adequate control over moveable fixed assets, we recommended the following:

1. Assign responsibility for the care and custody of fixed assets by issuing such assets to individuals rather than departments.
2. Implement security measures to ensure that unauthorized removal of fixed assets from the Authority's premises cannot occur.
3. Verify the physical existence of fixed assets on a periodic basis.

The foregoing observations and recommendations were reviewed in draft

form with officials of the Authority. However, no formal report had been issued as at September 30, 1980, the date of this Report. Therefore, we are unable to present the Authority's views on the subject matter.

3.10 Lack of Employee Familiarity with New Computer System, Ontario Housing Corporation. The Corporation's audited financial statements for the year ended December 31, 1979 are reproduced in Volume 2 of the 1979-80 Public Accounts.

During 1979, the Corporation changed over to a new accounting/financial system called Operational Financial Information System (OFIS). During the course of the audit, our audit staff noted that there was a general lack of satisfactory understanding of the new OFIS system by the Corporation staff. Some of the ways in which this is borne out are as follows:

- A large number of journal entries processed through the general ledger during the year were for the purpose of correcting entries previously made in error. In one instance, an entry for \$551,193 was processed twenty-three times before it was finally corrected.
- We came across instances where supervisors who had approved journal vouchers were unable to explain the purpose for the entries.
- Approximately 380 journal entries of various amounts were processed to correct the computerized general ledger as at December 31, 1979.
- There were six sets of draft financial statements before the final financial statements were completed. The first draft was presented to us on April 21, 1980 and the final statements on August 1, 1980.

Although we appreciate that implementation of any new system is bound to have its problems, to prevent a recurrence of the preceding, we recommended that management:

- identify areas where problems exist and provide additional staff, training or supervision to overcome these problems;
- monitor closely the operation of the system by carrying out detailed checks on all relevant computer reports to isolate and resolve promptly all problems as they arise;
- plan and agree on a firm timetable for the timely preparation of the year end financial statements in order to meet the reporting requirements of six months from the year end to the Legislature.

The foregoing observations and recommendations were reviewed with officials of the Corporation. However, no formal report had been issued as at September 30, 1980, the date of this Report. Therefore, we are unable to present the Corporation's views on the subject matter.

3.11 Acquisition of Properties on Default of Mortgages, Ontario Mortgage Corporation. The Corporation's audited financial statements for the year ended March 31, 1980 are reproduced in Volume 2 of the 1979-80 Public Accounts.

During the year ended March 31, 1980 the Corporation acquired or had commenced legal action in respect of 473 units consisting of condominium apartments, townhouses, single family units, and an apartment building for a total cost of \$29,808,121. These arose as a result of default by mortgagors.

A breakdown of the method of acquisition during the year is as follows:

	<i>No. of Housing Units</i>	<i>% of Total Units</i>	<i>Cost</i>	<i>% of Total Cost</i>
Power of sale	290	61	15,958,038	53
Foreclosure	36	8	1,353,282	5
Quit Claim	147	31	12,496,801	42
	<u>473</u>	<u>100</u>	<u>29,808,121</u>	<u>100</u>

In a power of sale action the Corporation does not acquire title to the property but obtains a writ for possession when the property is occupied by the owner or tenant. A writ for possession is not necessary when the property is vacant. While the mortgagor would be responsible for any loss on the eventual sale, he/she would not be entitled to a profit if there are other encumbrances such as a second mortgage or liens.

In a foreclosure action, the Corporation acquires the property through a court action with no recourse against the mortgagor for any loss/gain upon eventual sale.

In a quit claim, the mortgagor applies to the Corporation to take back the property. If the Corporation agrees to do so, the mortgagor signs the title to the property over to the Corporation with no further recourse.

Quit Claims

We reviewed the policies and procedures with regard to quit claims by selecting at random twenty-one files for review.

The following is a summary of our findings:

1. We could not find any written policies or guidelines set by the Board of Directors for accepting quit claims.
2. We found guidelines dated September 18, 1978 set by the then Assistant General Manager, Mortgage Administration, which stated that quit claims would only be accepted in three specified areas. Further:

"While the acceptance of Quit Claims in other areas should not be precluded, all requests must be reviewed by the Manager, or Asst. General Manager, and prior approval received.

"Generally, the criteria for accepting Quit Claims will be Loss of Income, which may be caused by any number of circumstances.

"Before presenting the request to management a full explanation must be provided by the borrower in writing, and a credit report obtained. The borrower should be advised that if the request is not

granted, and if the account is allowed to go into default, a Power of Sale action will be commenced, and the property sold by auction. If the monies realized by the sale are not sufficient to cover our debt and costs, then the Corporation will apply to the courts for a deficiency judgement in the amount of the balance owing.

"Notwithstanding the foregoing, it should be realized that legal actions are very costly to the Corporation, and therefore discretion and judgement should be used in conveying the above policy to borrowers.

"Finally, until further notice we will continue to accept Quit Claims on NHA and MICC insured loans."

We found another set of guidelines dated December 14, 1978 issued by the then Acting Manager, Mortgage Administration, which stated the following:

"RE: Credit Reports

In future, payment for Credit Reports required for consideration of requests to Quit Claims will be charged to the mortgagors' accounts. Bills received by Accounts Payable will be forwarded to Administration for payment.

"Mortgagors outwith (outside) the designated areas of acceptance making requests to Quit Claim should be informed that it will be necessary to obtain credit reports and that the fees will be charged to their mortgage account."

We found no formal approval of either of the preceding September 18 or December 14, 1978 guidelines by the Board of Directors. Management's response to this was as follows:

"It has not been the practice of OMC Board of Directors to provide detailed written policies or guidelines. The Board of Directors is kept advised of the activities of the Corporation through monthly Management Reports, special written reports and verbal reports. Some written reports contain recommendations which the Board approves as submitted or as amended or rejects the recommendations. The approval or rejection does not always take the form of a formal resolution.

"The Board of Directors has been kept advised of the various means through which OMC acquired properties. There is particular reference to quit claim deeds in Minutes of Meetings held on November 18, 1976, February 17, May 5, June 16, August 4 and September 22, 1977, February 16 and March 2, 1978, etc. At the meeting on November 2, 1978 a comprehensive report was submitted to the Board — Summary and History of Problem Projects — and it was reviewed in depth."

3. Out of the twenty-one files, we found that in ten cases the mortgagors

quit claimed even though there was no evidence that there was a drop in income. This is contrary to the policy statement issued on September 18, 1978 referred to previously. Also we did not see any evidence that the Corporation considered taking legal action against those mortgagors who had sufficient income and/or assets to carry their mortgages.

Management's response to this was as follows:

"The Audit Report does not specify areas where 10 quit claims deeds were taken though there was no evidence of a drop in income. There may have been other reasons, e.g. determination to abandon the unit whether the quit claim was accepted or not; or transfer for employment reasons and inability to sell."

In our opinion, if legal action is taken against those mortgagors who have sufficient income and/or assets to carry their mortgages, it would serve as a deterrent to other potential mortgagors who can afford to carry their mortgages but are planning to quit claim for other reasons.

Management's response to this was as follows:

"The deterrent factor of a legal action is of a limited value only. The policy statement of September 18, 1978 was intended as a guideline and not to be adhered to without exception."

Our findings indicated that the Corporation has taken a lenient attitude towards mortgagors who apply for quit claims. In a meeting of the Board of Directors dated December 6, 1979 one member even suggested "that a look be taken at not accepting quit claims so readily, and to not allow people to walk away from their responsibilities."

Management's response to this was as follows:

"The Corporation has not taken a lenient attitude towards accepting quit claim deeds and, in fact, a number of requests for quit claim deeds have been refused. Where these are still being accepted, the main criterion is still: will it minimize losses? It is a Management decision as to which of the three methods is to be used. In cases of large projects, where other considerations apply and which involve additional complications, a report is submitted to the Board and Board's opinion sought."

4. We noted three instances where credit reports were obtained on mortgagors within the designated areas. We also noted that in two instances credit reports were not obtained on mortgagors outside the designated areas. The policy statement dated September 18, 1978 required that credit reports be obtained only in respect of properties outside the designated areas.

Management's response to this was as follows:

"Even in designated areas quit claims are no longer accepted without question, and there was likely a reason why in three

instances credit reports were obtained as well as reasons why in two instances no credit reports were obtained for other areas."

Due to the continued acquisition of properties through quit claims, we recommended that the Board of Directors look into this area and develop a written policy with regard to quit claims.

Multiple Unit Apartment Building

The Corporation commenced legal proceedings by way of a power of sale action in January 1980 against a corporate mortgagor who had defaulted on a first mortgage of approximately \$7 million.

This action was recommended by the Board of Directors in their meeting held on December 6, 1979. The Board's resolution stated that legal action be taken against the mortgagor if certain conditions were not fulfilled. The specified conditions were not met by the mortgagor. However, in February 1980, the property was acquired by the Corporation through a quit claim.

We could not find any written evidence indicating that the quit claim action was approved by the Board of Directors, nor could we find any documentation indicating that the Board of Directors had authorized the discontinuance of the power of sale action against the mortgagor.

Management's response to this was as follows:

"The Board of Directors was kept informed of all developments on this project either by written or verbal reports. It was the value judgement of the Management that O.M.C.'s interests were best served by the acceptance of the quit claim deed, and as Board was aware of it, it was not considered necessary to pass a formal resolution approving the acceptance of the quit claim. Once a quit claim deed had been accepted, the discontinuance of the power of sale of action was automatic as it is legally impossible to have title to the property and continue power of sale action."

The defaulting mortgagor had purchased the building from the original owners in December 1977. At the time of granting the mortgage to the original owners, the Corporation had obtained personal guarantees from the two principals. On the sale of the building and the assumption of the mortgage by the defaulting mortgagor, the Corporation did not obtain a similar personal guarantee from the new principal although the net worth of the principal was known to the Corporation. We could not find any documentation to indicate why the Corporation agreed to let the new purchaser assume the mortgage without giving a personal guarantee. The Corporation, instead, opted to continue the guarantees given by the two original principals of the building.

We could not find any documentation to indicate that an investigation had been carried out to determine the net worth of these two guarantors at the time of continuation of the guarantees. However, by accepting the quit claim, the Corporation lost the opportunity to file a claim for any losses against the guarantors.

We understood from Management that one guarantor has left Canada while the other now resides in another Province.

Although the preceding comments have been reviewed with officials of the Corporation, no formal report had been issued as at September 30, 1980, the date of this Report. Therefore, we are not able to present the Corporation's views on the subject matter.

3.12 Report Made to Standing Public Accounts Committee Re Matters Pertaining to The Royal Ontario Museum. As covered in section 98 of our 1978-79 Report, a memorandum, dealing with matters related to the Museum's Renovation/Expansion program and matters resulting from a general analysis of the Museum's financial statements and budget, was reviewed in detail at meetings of the Standing Public Accounts Committee which were held on June 27 and 28, 1979.

As a result of these meetings, the Standing Public Accounts Committee made the following conclusions and recommendations in its Report to the Legislature in December 1979:

"The Committee concludes that the Ministry of Culture and Recreation has given insufficient attention to the financial affairs of the Royal Ontario Museum. The Committee is concerned about the financial operations of the Museum in both its daily operations and capital requirements.

"In general, the Committee recommends the Ministry become more involved in the financial operations of the Museum. Specifically, the Committee recommends that the museum not be permitted to proceed with capital projects without the approval of Management Board which should be responsible for seeing that funds for the project are actually in existence before approval is given.

"The Committee directs the Auditor to update his June 1979 report on the Royal Ontario Museum since the Committee expects to review progress in improving the financial affairs of the Museum as well as the current status of the expansion programme of the Museum in the immediate future."

The status of the general and specific recommendations contained in the second paragraph, as reported by the Ministry of Culture and Recreation, is contained in Exhibit 8 to this Report.

Pursuant to the Committee's final comment, an updated memorandum detailing the results of our review was tabled with the Committee on February 20, 1980, and was reviewed in detail at a Committee meeting held on February 26. The Deputy Minister of Culture and Recreation, the Chairman of the Museum's Board of Trustees and the Director of the Museum participated in this meeting.

The Museum's Renovation/Expansion program consists of the building of a new Curatorial Centre, new Terrace Galleries and the renovation of the Main Building (including construction work on the Planetarium Plaza). The total approved budget cost for this program amounts to \$44.25 million. This amount was essentially based on Volume 1 of the Final Planning Report for The Royal Ontario

Museum Renovation and Expansion Project, which was unanimously approved at the November 16, 1977 Board meeting. This amount also included allowances of \$5.3 million for escalation (inflation) of construction costs and contingencies.

Funds received or committed to December 31, 1979 (the date of our review) for the financing of this program amounted to \$39.47 million, consisting of:

	\$(millions)
Grants (general, special and Wintario) from	
Province of Ontario	31.80
Grant from National Museums Corporation10
Private sector donations	7.57
	<u>39.47</u>

We understand that, subsequently, the Museum has received a commitment of up to \$5 million from Metropolitan Toronto, under which the Municipality will contribute 50¢ for every private sector dollar collected by the Museum.

By December 31, 1979, the estimated project capital costs had risen to \$51.09 million, an increase of \$6.84 million over the approved \$44.25 million budget cost. The main factor involved in this increase was stated as being higher than anticipated inflation.

At the time of our review and the Standing Public Accounts Committee meeting, the situation was that, unless additional funds became available from other sources in excess of the \$44.25 million budget, “in order to remain within the approved budget, only the fabric of the Terrace Galleries, with certain limitations in access, escalators, lighting, heating and general finishing will be constructed. Public access will be available to the Ming Tomb area on the first floor of the Terrace Galleries. It was noted by the Project Director that, in order to provide such public access, further adjustments in other areas of the total project would be necessary.”

Not included in the preceding budget are costs related to the final phase of gallery exhibit development, estimated (1978 dollars) to be \$12.02 million. The timing of this development, which is conditional upon additional financing being available, indicated that at least \$7.29 million was planned for the period from July 1981 to September 1988, with the remainder being expended during the period ending in April 1996. As at February 26, 1980, the date of the Standing Public Accounts Committee meeting, no firm arrangements had been made regarding the financing thereof.

Recommendations resulting from the Committee’s February 26, 1980 meeting could form part of the Committee’s final Report to the Legislative Assembly, which will likely be released near the end of the current year.

3.13 Lack of Due Regard for Economy, Star Transfer Limited. As at December 31, 1979, the assets of the Company totalled \$7,435,649. Liabilities amounted to \$6,768,674, while capital and retained income totalled \$666,975. For the fiscal year ended December 31, 1979, the Company incurred a loss of \$838,200.

Star Transfer Limited was incorporated as a private company on January 2, 1951, and was subsequently purchased by the Ontario Northland Transportation Commission under an agreement dated July 11, 1960. Since that time Star Transfer Limited has operated as a wholly-owned subsidiary of the Commission, and has provided trucking service throughout northeastern Ontario.

The following situations were reported on as part of our most recent audit of the Company.

Leasing of Terminal Facilities

In January 1979, the Company entered into a verbal agreement to lease its Toronto Terminal maintenance facilities for \$55,800 per annum. The lessee also agreed to second the Company's maintenance personnel and to service the Company's vehicles for a labour charge of \$21 per hour.

For the period from January 1979 to June 1979 the lessee paid the Company \$24,645 for rental of the terminal and received \$128,000 for maintaining the Company's vehicles at the \$21 per hour rate. On June 9, 1979 the Company terminated the arrangement with the lessee and subsequently the lessee filed a lawsuit for breach of contract amounting to \$1.3 million.

Management advised us that prior to negotiating with the lessee, the Company called for tenders but none were received. The lack of open competition may explain the low rental charge of \$55,800 per annum, which represents a 3.0 per cent return on estimated investment while the Company is paying 10 per cent on moneys borrowed to construct the terminal. The Company also neglected to perform a cost-benefit analysis to determine the economics of the arrangement with the lessee.

It was our opinion that management did not exercise due regard for economy in its maintenance leasing dealings.

Sale of Terminal

In October 1979, the Company sold its Cochrane Terminal building and land for \$31,400, approximating the 1975 appraised value of the land only. The building was considered to have no value because of zoning restrictions. However, immediately after selling the property, the Company leased back part of the apparently valueless building for the 6 winter months for \$4,800 to store four tractors. We were informed that the tractors need to be stored indoors because of severe winter conditions, and that storage facilities will be required every winter.

Again, in our opinion, these transactions were not economical. A building obviously needed by the Company was sold for virtually no consideration and then the Company leased back a part of it for an amount which gave the landlord an annual rate of return of 30 per cent, plus usage of the remainder of the facilities.

The preceding comments were included in our report of June 24, 1980 to the Company. We have no record of a reply as at September 30, 1980, the date of this Report. We are, therefore, unable to present management's views on the matters raised.

COMMENTS ON INTERNAL AUDIT OPERATIONS

4.1 Introduction. Internal audit has made a significant contribution to improved systems of financial and management control in the Government of Ontario. It has the potential to make an even greater contribution in the future. To understand the full potential of internal audit, it is useful to look at this important function in terms of three objectives.

The first objective is to provide the assurances which deputy ministers and heads of agencies require with respect to major financial systems including the information which is contained in consolidated reports of the government itself. Secondly, internal audit represents an information system for the deputy ministers, the heads of agencies and senior managers and all other levels of management. The third objective can be summed up in the words "bringing about change". The audit process itself results in change. Audit reports bring potential improvements to the attention of management. Additionally, the salutary or deterrent effect of an audit results in changed behaviour of everyone who knows that their work may be audited in future.

The extent to which internal audit achieves these three objectives is a measure of its effectiveness and determines the degree to which the Provincial Auditor is able to rely thereon.

In the past year the Provincial Auditor carried out an indepth review of internal audit operations in all operating ministries and certain agencies audited by the Office. Memoranda containing our observations and recommendations were sent to the deputy ministers of the ministries and the chairmen or chief executive officers of the agencies. Meetings were then held to review the memoranda and explore possible courses of action.

We feel that in reviewing the present state of internal audit in the Government of Ontario, it is important not to overlook the progress made in the last decade. It is only ten years since the Committee on Government Productivity recommended that the Provincial Auditor no longer be required to "pre-audit", i.e. examine requisitions for expenditure of funds within approved appropriations before cheques are issued. This change, legislated in 1972, placed a commensurate responsibility on ministries to upgrade their financial control systems and their internal audit functions. This responsibility was defined and enunciated in the Basic Statement of Accounting Policy issued by the Treasury Division in 1974, by which time all ministries had become eligible to operate on the new "post-audit" basis. 1977 saw the issue by Management Board Secretariat of its "Statement on Operational Review and Auditing. . . ." In April 1978. The Audit Act, 1977 came into force, giving effect to significant changes in the mandate of the Provincial Auditor and raising new implications for ministries and their internal auditors.

4.2 Purpose and Scope of Review.

Purpose of Review

The purpose of our indepth review of internal audit operations was to assess

the efficiency and effectiveness of each internal audit branch, to determine the extent to which the Office can rely on the work of internal audit, and to obtain detailed information for this, a government-wide commentary on internal audit.

In order to ensure that auditing within government is carried out economically and without duplication, the Office of the Provincial Auditor has adopted the position that wherever possible it will rely on the overall internal audit process within a ministry or agency. This approach should allow the Office to reduce the scope and extent of its work and permit it to concentrate attention on major systems where weaknesses have been identified.

This approach should also result in more time being available for the review of government-wide issues including procedures and systems which affect more than one ministry or agency, high risk areas of significance to the government as a whole, new developments and intergovernmental transactions.

This approach, therefore, necessitates that the Provincial Auditor first be in a position to decide upon the degree of reliance to be placed on internal audit. Such a decision, ministry by ministry and agency by agency, calls for a review of the nature just completed.

Scope of Review

Eighteen ministries have internal audit branches, three of which provide audit services to one or more other ministries. The size of these branches varies from two full-time people with some part-time assistance to one hundred and fifty people. In most cases all staff are located in Toronto, but in the case of two ministries internal audit have branch offices located throughout the Province. Internal audit departments of the agencies we reviewed similarly range in size from one to fifty.

The total cost of internal audit is currently estimated at \$12 million per annum. There is no single yardstick which can be used to assess the ideal size of internal audit in the case of any one ministry or agency. Relative size in relation to revenues, expenditures and assets represents one reference point. The nature of expenditures — salaries, operating expenses and transfer payments — must also be considered. Transfer payments represent over 70% of government expenditures, and vary widely in terms of the methods of program administration and funding. Some such payments are presently being subjected to a great deal of audit while others are being subjected to none or very little.

In the past, internal audit has devoted a substantial amount of time to the audit of district and regional offices particularly where these offices have had responsibility for collecting revenue and processing payments. Another consideration has been the number of ministry-related Crown agencies which have been subject to audit. In the case of five ministries these have required a high percentage of audit time.

New and reorganized programs and systems have a significant impact on the required level of audit resources. Increasing awareness by management and auditors of the risks inherent in certain systems and programs heightens the need for multiple yardsticks to assess audit needs, priorities and resources.

4.3 Methodology. Our review of each ministry started with a meeting with the Deputy Minister (or, for agencies, the Chief Executive Officer) to explain our objectives and approach. At this time we obtained the Deputy's perception of his internal audit branch and the extent to which it was meeting his needs. We also agreed on a list of senior officers whom we would interview to obtain further views on the Ministry's internal audit requirements.

After meetings with Assistant Deputy Ministers, Executive Directors, the Director of Finance and Director of Audit, we examined a sample of reports and, where available, the audit mandate or terms of reference. We reviewed the overall planning process and the planning and conduct of specific assignments. We studied working papers, questionnaires and audit manuals where available. We particularly directed our attention to the adequacy of audit terms of reference, the overall planning process, professional resources and the reporting process. We examined the organization of audit branches and relationships with the Deputy Minister and other members of senior management.

After we had drafted our memorandum, we discussed our findings and recommendations with the Director of the Audit Branch and sent the memorandum together with a covering letter to the Deputy Minister. In this covering letter we pointed out that some of the issues related to his responsibilities as senior administrative officer and requested an opportunity to meet with him for a full and frank discussion before he decided on a course of action or sought the reaction of his staff. We expressed the view that a meeting of this kind would give us a chance to answer his questions and lead to an exploration of the various courses of action open to him.

In addition to our examination of individual ministries and agencies, we had meetings with the Executive and Chairman of the Ontario Public Service Internal Auditors' Council (OPSIAC). We reviewed a copy of the charter of OPSIAC and a list of its current activities.

We also had several meetings with the Secretary of the Management Board Secretariat and senior members of his staff. These meetings gave us an opportunity to discuss our overall findings and conclusions and to learn about the current activities presently being undertaken through the Management Standards Project and the Task Force on Audit Policy.

We met with the Director of the Personnel Audit Branch of the Civil Service Commission to understand his particular function and assess its significance in terms of the government's overall audit requirements. We also met with senior officials of the Ministry of Treasury and Economics and the Ministry of Intergovernmental Affairs in order to learn about the studies presently being undertaken by these ministries with respect to the audit of municipalities.

4.4 Summary of Findings. Generally speaking, our findings are applicable to both ministries and agencies. However, the main focus of our review was on the former. For ease of presentation, therefore, we have referenced our findings for the most part to a ministry setting.

We have identified a number of issues which will require attention before we will be in a position to place reliance on the overall audit process in individual ministries, but we have also found many examples of recent developments and activities which contribute to a high level of optimism for the future.

Overall Conclusions

Internal audit is widely perceived as having major potential to contribute to overall management effectiveness — indeed, to be a vital element of the accountability process for which every minister and deputy minister is responsible. We have found that internal audit, in general, is not yet fulfilling such a role and is significantly short of achieving its true potential. Further, and more serious, not only do we find ourselves unable to rely on internal audit in many cases, but we question the extent to which many deputy ministers are justified in placing reliance on their own internal audit functions. Above all, while individual ministries and their internal audit branches must shoulder some responsibility for this state of affairs, we find that there has been inadequate support at a central agency level for the development of the internal audit function in the government as a whole.

In many ministries we found that internal audit was operating without approved or published terms of reference. Where there were terms of reference they were frequently ambiguous or out of date. Generally speaking, internal auditors have failed to develop an appropriate definition of the audit universe and have not had an adequate process for determining audit priorities. Many internal auditors are not preparing periodic reports which provide Deputy Ministers with adequate summary information or overall assurances. Because of the present confusion regarding the objectives of internal audit in many ministries and deficiencies in the planning and reporting processes, we have been largely unable to assess the effectiveness of internal audit and we are able to place reliance on the overall audit process in only one ministry.

We are, however, able to place reliance on the audits of specific functions and responsibility centres and on specific detailed procedures carried out by many internal audit branches. Unfortunately, much of the audit emphasis has been devoted to areas of relatively low importance in terms of dollars or risk.

In a number of instances we found that the work of internal audit was being carried out efficiently, but we also found instances where lack of clearly defined objectives, poor organization and inadequate budgeting or time reporting systems were contributing to excessive costs relative to levels of service and results achieved.

In some ministries we found internal audit was performing what are in fact line management and financial control functions. In other cases, it was devoting a significant proportion of time to the audit of transfer payments to agencies, including detailed examination of their books and making decisions on the eligibility of their expenditures.

We have not attempted to evaluate the management of any ministry. In our conversations with Deputy Ministers, however, we have made it clear that internal audit is a Deputy Minister's responsibility and we have expressed the view that

effective internal audit depends on Deputy Minister involvement and support. Those Deputy Ministers who had not seen internal audit as one of their important responsibilities may have been surprised at the position we have taken.

We believe that internal audit will be effective if it develops a ministry-wide, management perspective and Deputy Ministers will derive the greatest benefits by expecting this from internal audit.

Examples of Positive Findings

First and foremost we have been impressed by the interest, commitment and understanding of Deputy Ministers. This was evident at our initial meetings when they described their internal audit branches and the reliance that they were placing on them. It was evident from the close working relationships which have built up between several Deputy Ministers and their audit directors. And it was evident from the reactions to our recommendations, particularly those related to the need for clear terms of reference and the need to seek out the views of senior management in setting audit priorities. There was a good appreciation of the need for "systems based" auditing.

Secondly, we have met professionals at both the management and field auditor levels who are carrying out their assignments, many of considerable complexity, in a thoughtful and helpful manner. They have been able to bring about significant improvements by working with line managers and at the same time meeting their reporting responsibilities to the Deputy Minister. Many internal auditors have been playing an important training and educational role by helping people in branch offices interpret and apply government policies and directives.

Thirdly, we found examples of excellent audit manuals which had been prepared to provide guidance on a wide range of subjects including reporting, flow-charting, statistical sampling, interviewing techniques and operational auditing. We believe these manuals have made a significant contribution to the quality of internal auditing.

Fourthly, we found a number of internal audit branches which have been carrying out special investigations on behalf of senior management. There is always a risk that special assignments of this kind will divert internal audit's attention from its primary objectives. On the other hand, we believe that significant benefits have resulted when management has asked internal audit to investigate areas where there were indications of conflict of interest, fraud or mismanagement. Even in cases where suspicions are proven to be unfounded, substantiation of this fact restores management's confidence in a particular operation.

Finally, we found there was a high level of knowledge and interest apparent in our interviews with Assistant Deputy Ministers, Executive Directors and other ministry officials. Many had a good appreciation of the potential benefits of internal audit. They were most anxious to discuss the nature of their responsibilities and explore ways in which internal audit could be of assistance to them.

4.5 Detailed Findings and Commentary. We next present details of our major findings relating to individual ministries and agencies under the four headings —

terms of reference, planning process, professional resources and communication — which we believe must be addressed if our Office and indeed deputy ministers are to be in a position to place reliance on ministry internal audit branches. We also present further commentary on each area of our detailed findings.

Terms of Reference

- In many ministries we found that there were no approved terms of reference for internal audit.
- Where terms of reference had been issued, they were frequently ambiguous and out-of-date. In many cases, the ambiguity related to responsibility for auditing agencies funded by ministries.
- There appeared to be little or no appreciation of the benefits to be gained through participation of senior management in the process by which terms of reference are developed.

Frequently, these deficiencies have contributed to situations where there were significant discrepancies between the needs and expectations of management on the one hand and the activities and reports of internal audit on the other.

In one ministry the “objectives” of internal audit provided for a broad scope of audit coverage. The “responsibilities” on the other hand referred to the need to conduct “financial audits”. In other cases, there was considerable confusion between the roles and responsibilities of program evaluation and of internal audit.

Where terms of reference had been issued prior to the enactment of The Audit Act, 1977 the scope of coverage frequently did not include provisions for the audit of management control systems relating to economy, efficiency and effectiveness (sometimes referred to as value-for-money or program auditing).

Assistant deputy ministers, executive directors and other ministry officials showed a high level of interest in the process of developing terms of reference. Some had a good appreciation of the potential benefit of internal audit but this was by no means universal. Most were anxious to discuss the nature of their responsibilities and explore ways in which internal audit could be of assistance to them. There was not, however, complete understanding of the specific roles and responsibilities of their internal audit branches.

Planning Process

- In some ministries we found that major programs and large EDP systems had never been audited.
- In most ministries the planning process failed to give specific recognition to the need to develop appropriate criteria for the ranking of audit priorities. Frequently, internal audit had not attempted to obtain the views of senior management.
- In many cases plans which had been prepared provided no explanations as to why some programs and systems had been selected other than reference to the three year mandatory cycle for “financial audits”.

We frequently found that a disproportionate amount of time was being devoted to the audit of relatively small, low risk programs and systems including accountable advances, travelling expenses and long distance telephone charges, and that significant programs, payments and systems were being virtually ignored.

In one particular Ministry we were pleased to see that formal criteria had been developed and senior management had been asked to identify priority areas. The responses from management in this instance referred to a number of risks and risk-related considerations, including the possibility of client and employee fraud, level and quality of supervision, physical distance, compensating controls and the involvement of other auditors.

Frequently, plans gave no indication as to why apparently significant programs or systems had been excluded or included, and made no reference to relative materiality, i.e. dollar expenditures. Many failed to disclose the date of the last audit or the nature of findings where relevant.

Professional Resources

- There was a widespread lack of understanding by internal auditors of the need to examine financial and management systems including the preparation of flowcharts in order to identify control weaknesses and potential risks.
- We found examples of excellent audit manuals. In many ministries, however, no manuals were available.
- In some ministries we found that the time spent on individual assignments was greatly in excess of budgeted estimates and seemed to be out of proportion to the benefits which might be expected.
- In most ministries we found that the audit staff were conscientious, knowledgeable and energetic with professional qualifications and experience suitable for the work they were doing.
- Several ministries expressed concern about the resources and expertise available to audit EDP systems. We share this concern.

We frequently commented that staffing and organization of audit branches would need to be reassessed after terms of reference had been established and audit priorities determined.

Standards for the Professional Practice of Internal Auditing in the Government of Ontario have been issued by the Internal Auditors' Council. These are an adaptation of the standards issued by the Institute of Internal Auditors, Inc. We believe they will provide all internal auditors with a basis for assessing and improving the management of their branches and ensuring that their practices and procedures are appropriate in today's environment.

The quality of working papers varied widely from one ministry to another. In many cases audit files were well organized and fully supported audit findings and recommendations. In other cases we noted a number of deficiencies including situations where audit objectives had not been clearly stated and audit programs had either not been prepared or signed off as evidence of work done.

Internal auditors in most ministries have attended a wide variety of seminars, courses and workshops. The practical value of much of this training is questionable, first as to its relevance, secondly, as to its effectiveness, thirdly as to the extent to which newly-acquired knowledge and skills are applied on the job afterwards.

Although several internal audit branches had EDP audit specialists, many did not have the skills required to review controls in computer systems, either existing or under development, or to make use of the computer to assist them in carrying out their audits.

Most internal audit branches were maintaining adequate systems for reporting audit time and controlling assignments. In one case we found that global time estimates were being developed for major projects but these were not allocated to individual assignments.

In some cases where internal audit was carrying out extensive examinations of underlying documents, the same or improved results could have been achieved through the use of statistical sampling.

Communication

- Generally speaking significant matters are being reported to deputy ministers and agency heads. There are situations of serious concern, however, where deputy ministers and agency heads are not receiving reports of significant audit findings.
- In many cases we found that the format, detailed content and length of audit reports obscured significant findings and recommendations. Internal audit has not always taken the responsibility for thinking through the importance of its findings and highlighting those which are most significant.
- Frequently, reports do not provide deputy ministers with overall assurances in areas audited nor do they draw together various audit findings and present them in a ministry-wide perspective.
- In some cases the wide distribution of reports has made it difficult for the recipients to know what action, if any, is expected of them. This has resulted in confusion and unproductive efforts.
- We found several ministries and agencies where there has been inadequate communication to program and administrative staff about the role of internal audit.

) AUDIT REPORTS ON SPECIFIC ASSIGNMENTS

We found that in almost all cases the reports prepared after the completion of individual audit assignments were either addressed to the Deputy Minister or copies were being sent to the Deputy Minister. Frequently these reports included executive summaries or overviews highlighting significant findings. They usually included specific recommendations designed to correct deficiencies which had been identified. In many cases internal audit had established follow-up procedures de-

signed to obtain management responses to their recommendations. These responses were either included in the reports themselves or summarized and reported at a later date.

Because of the large number of reports and extensive detail included therein, it was often difficult for the Deputy Minister to identify those issues which required action on his part. We found many examples of reports where the objectives of the audit were either not set out or were unclear. Conclusions were frequently inconsistent with the objectives and/or findings. In some cases overall assurances were provided but this was the exception.

b) PERIODIC OR SUMMARY REPORTS

Basic Statement of Accounting Policy No. 9 issued by the Ministry of Treasury and Economics requires that "A schedule of internal audits should be prepared each year with an annual report being submitted to the Deputy Minister, indicating actual coverage and results".

Although annual reports are being prepared by many internal auditors, we found instances where this was not the case.

Several audit branches are now providing periodic (e.g. quarterly) reports to Deputy Ministers and audit committees summarizing audit activities compared to plans and giving an overview of significant findings and results of audits.

c) TERMS OF REFERENCE

We found several instances where internal audit terms of reference were inadequately communicated. This contributed to considerable ambiguity and misunderstanding concerning the role and responsibilities of internal audit, and was reflected in our discussions with both senior management and audit branch personnel.

4.6 Recommendations to Ministries and Agencies. We now present examples of the recommendations we made most frequently and consider to be the most important in each of the four areas under which our findings have been described. We also provide additional points for consideration in each area of recommendation.

Terms of Reference

- We recommend that terms of reference be established and published through a process which will ensure input from and understanding by senior ministry and agency management and by audit branch managers. This process should take into account the needs of the deputy minister, heads of agencies and central agencies.
- We recommend that the terms of reference be reviewed and clarified. We further recommend that the independence of the internal audit function be maintained at all times.
- We recommend that audit objectives be developed under three headings: Assurance, Information and Change. We believe that the role of internal audit can be relatively broad without in any way infringing on the responsibilities of management. This role might, for example, include an

assessment of all processes, systems and procedures of management, electronic data processing, administrative and other support functions.

- We recommend that consideration be given to including, in the scope of audit, provisions similar to those contained in section 12(2)(f)(iv) and (v) (value-for-money provisions) of The Audit Act, 1977, as amended.
- We recommend that the Ministry terms of reference stress the need for a systems-oriented approach to internal auditing.

KEY CONSIDERATIONS

We believe that the following issues should be considered when developing new or revised terms of reference.

- *Clear definition of scope of audit.* This is frequently referred to as the audit universe. The Audit Act, 1977, as amended, provides the Provincial Auditor with a broad mandate and for this reason, if no other, ministries and agencies should consider all systems and functions for inclusion in the audit universe.
- *Reporting responsibilities to Deputy Minister and other members of management.* These might, for example, be defined in terms of management needs for assurances with respect to major financial systems, detailed reports and executive summaries relating to specific programs or operations, summary reports commenting on ministry-wide or agency-wide issues and periodic reports setting out major developments and achievements.
- *Responsibility of internal audit to examine and report on systems and processes.* The credibility and effectiveness of internal audit will be jeopardized if it puts itself in the position of questioning or second-guessing the decisions of management. This involves drawing a clear line between the responsibilities of internal audit to examine and report on the one hand and the responsibilities of program management, financial management and those who carry out program evaluations on the other.
- *Internal audit's responsibilities for the audit of Crown agencies and the process for reporting thereon.* In some cases, agencies which have their own boards of directors and report to the minister will be part of the audit universe. Where an agency has its own internal audit function there may still be a need for a ministry audit to determine that the ministry's interests are being protected. The auditor may have a primary reporting relationship with the board of directors with secondary reporting relationships to the minister and deputy minister.
- *Role of internal audit regarding the development of new policies, systems and procedures.* Both manual and EDP systems development create situations where internal audit must be involved — sooner, not later — in the development process. These situations pose a special challenge to the auditor's need for objectivity.
- *The role of internal audit in relation to requests from management to*

carry out special assignments and investigations. Care needs to be taken that such assignments neither unduly interfere with previously planned audit operations nor are inappropriate or prejudicial to the auditor's role.

- *Rights of access by internal audit to information, records and personnel.* Auditors and those who work is subject to audit need to be clear about the auditor's authority to obtain the information which, in the auditor's opinion, is required to perform the audit. Auditors' rights of access must be adequate and indisputable.

CONTRACT AND COMMITMENT

One way to understand the importance we place on clear terms of reference is to think of them as a contract between the organization and internal audit. They should set out what each party can do to help the other and what each can expect from the other. Like all significant contracts they should be reviewed periodically and renegotiated in the light of changed circumstances, changed needs and changed parties.

We believe that the process by which this contract is developed can result in a high degree of commitment to internal audit. By providing both management and members of the internal audit branch with opportunities to make suggestions and ask questions the terms of reference will have the necessary understanding and support. The terms of reference should sell the benefits of internal audit, not only to management but also to everyone whose work may be subject to audit. Everyone in a ministry should be able to take pride in the effectiveness of the management systems and the role of internal audit in contributing to this effectiveness.

Where ministries include descriptions of the internal audit role and responsibilities of their internal audit branches in their annual reports they should ensure that these descriptions are consistent with their terms of reference and reflect the scope of work actually being conducted.

AUDIT COMMITTEES

A number of ministries have audit committees. We believe that the effectiveness of these committees can be improved by clarifying their roles and responsibilities.

We have not recommended audit committees where none exists at the present time. Even where there is an audit committee we believe it is essential for the deputy minister to have occasional informal meetings with the director of internal audit. A relationship of mutual respect and trust between the Deputy Minister and Director of Audit can only evolve through personal contact from time to time. Subjects for discussion might include planning and scope, unresolved issues, and level of professional resources.

Deputy ministers also have to avoid the dangers of improperly relinquishing to audit committees their personal responsibility for audit, or allowing audit committees to obscure or filter out information and issues which need to come to the direct attention of the Deputy Minister.

Planning Process

- We recommend the establishment of an annual process for defining or updating the audit universe and setting priorities, based on an assessment of costs, benefits and risks. The resultant plan should reflect the needs and expectations of senior management and what can reasonably be achieved with available resources.
- We recommend regular reports which compare the work actually carried out with plans which have been submitted, together with an explanation of significant variances.
- We recommend that provision be made for the time which may be required to carry out special investigations and requests. (A director advised us that he spent about thirty per cent of his time in the past on such assignments.)
- We recommend that realistic audit time estimates be developed in the light of clarified audit objectives and related programs.
- We recommend that the Audit Committee review and approve the proposed planning process, provide input during the development of Branch plans, and submit comments on overall Branch plans before these are approved by the Deputy Minister.

NO STANDARD PROCESS

Because ministries and agencies differ significantly in terms of size, the nature of their programs, number or variety of related Crown agencies, geographical dispersion, quality of controls, complexity of operations and nature of risks we believe it is essential that each develop a planning process which is appropriate to its particular circumstances. The following issues should be considered in developing the planning process and the plan itself:

- Development of a detailed audit universe reflecting the scope of audit as set out in the terms of reference. Consideration should be given to all programs and systems including planning processes, financial management, personnel management, electronic data processing, administrative and support programs. As previously stated, the conduct of program evaluations is usually not regarded as an internal audit role, but the program evaluation function itself should be considered for audit.
- A process for setting priorities based on an assessment of costs, benefits and risks and ongoing dialogue with senior management.
- Where there is an audit committee, time should periodically be set aside for a free flowing discussion so that everyone has an opportunity to raise their concerns. This may well result in new perspectives and reassessment of audit priorities.
- Continually updated one-year and three-year plans and regular reports comparing work actually carried out with agreed upon plans.
- The plans themselves should be prepared before commencement of the planning period and where appropriate should include:

- Specific objectives for each assignment. These should be discussed with senior management before commencement of the actual work.
- Time estimates with supporting details where these involve significant commitments of resources.
- Cut-off points where there is reason to believe that a preliminary survey might indicate that a full scale audit cannot be justified.
- Explanations regarding the inclusion or exclusion of various programs and systems, including relative size, i.e. dollar expenditures and date of last audit.

SHARED RESPONSIBILITY

There has been considerable confusion regarding the responsibility for audit where two or more ministries share the responsibility for a particular program or system. For example, an expenditure or revenue program may be administered by one ministry on behalf of another ministry which is ultimately accountable therefor.

Another example is the government's large scale computer systems which are operated on a service centre basis. Ministries depend on these systems to process some or all of their major applications.

There are, of course, important audit procedures relating to input and output controls which can be carried out within the client ministries. These procedures must, however, be coordinated with the procedures carried out by auditors who have access to the service centres themselves. There is a need for both formal and informal communication between these two audit groups if the deputy ministers of the client ministries are to receive the assurances they require.

Professional Resources

- We recommend the development of an audit manual. The manual should include a clear statement as to how internal audit intends to carry out its terms of reference. It should provide a sound basis for planning, conducting and reporting on audits and guidance on the consistent application of auditing standards.
- We recommend that internal audit develop realistic time budgets for each assignment and monitor actual time and variances throughout each assignment. This should be documented and reported together with explanations for all significant variances.
- We recommend that internal audit organize in-house training to encourage greater use of flowcharts and statistical sampling.
- We recommend that the staffing requirements of the Branch be reassessed in the context of clarified terms of reference and an updated plan for the next three years. This should ensure that the professional resource requirements are based on agreed audit needs and priorities.
- We recommend that consideration be given to selecting one of the auditors presently on staff for development as an EDP audit specialist.
- We recommend regular staff meetings for reviewing current developments

in the operations and policies of the ministry and its agencies, as well as discussions on matters related to audit planning, activities and procedures.

- We recommend a thorough examination of the Branch's organization, staffing, planning, standards and methods.

COMPUTER SYSTEMS

We believe ministries should give consideration to selecting one or more auditors presently on staff for development as computer audit specialists and supplementary arrangements be made for outside consulting assistance and on-the-job training where required. Consideration should also be given to opportunities for making use of "inside" assistance from those internal audit branches which currently have EDP audit capabilities.

SYSTEMS KNOWLEDGE IN AUDITING

Auditing standards have long emphasized the importance of analysing the system of internal control as a basis for reliance thereon. A primary objective of all internal auditing is to acquire an understanding of the "system", be it financial, operational or management. Managers are more and more asking internal audit to help them improve their "systems". When errors or problems are identified the auditor has a responsibility to report not only what happened, but also why it happened and what can be done to prevent a recurrence. Many auditors have failed to look at their findings and put them into an overall context or framework.

The following quotation from our memoranda serve to illustrate:

1. "There is no process for ensuring that major systems weaknesses, if any, are identified and reported to senior management."
2. "In some cases the auditor had not identified the strengths and weaknesses in the systems as a basis for carrying out additional verification procedures."
3. "Internal audit has been unwilling . . . to synthesize the results of its work from an overall management perspective, or to summarize findings and issues common to several reports over a period."

The auditing profession has only recently recognized the importance of synthesis. There is an increasing demand for auditors who can help management put their findings into an overall perspective, that is, "put the pieces back together again". Instead of just trying to understand systems by taking them apart, they look at them as part of larger systems. The auditor should visualize the full implications of any one recommendation on the overall system.

When talking to senior managers about reports which they had received from internal audit we heard continual reference to the word "context". "If the auditor had only come to see us before issuing his report we could have given him information which would have helped him put his findings in context. There are aspects of this program which are not completely understood even by our people." Frequently, senior managers commented on how useful it would have been to meet with the auditor before he started his work so that they could provide their overall perspective.

We are not suggesting that there is one right way to look at or understand an organization. There are many relevant and important perspectives and the auditor must develop a multi-dimensional view. He can start to accomplish this by focusing on objectives at each stage of his audit. This includes being clear on his overall objectives (output) as set out in his terms of reference; it means developing specific objectives for each assignment; it means getting a good understanding of the objectives of the organization he is auditing as well as the objectives of the specific sub-system (e.g. payroll function) which he is examining; it means having an understanding of the external environment in which the organization is operating.

In one ministry we found that procedures were being developed for the examination of a new grant program which would have involved hundreds of separate audits of the records of grant recipients. Little consideration, however, had been given to the need to first examine the ministry's overall system as a basis for determining the extent and nature of detailed auditing of individual recipients.

In the past auditing has involved only looking at transactions, rules, procedures, books and accounts. In the future the emphasis will move to examination of planning, organizational objectives and results, and frameworks which take into consideration informal systems as well as formal systems.

DIRECTION AND LEADERSHIP

There are a number of effective leaders holding the position of internal audit director. We also met people at all levels within the internal audit community who have in our view significant leadership potential. The leadership qualities which we have identified are as follows:

- ability to develop high trust relationships with all levels of management;
- knowledge of professional standards and a highly developed sense of professional judgement;
- ability to inspire, motivate and train through direct involvement in specific assignments;
- courage and self-confidence to tackle new problems and take firm positions when required;
- thorough understanding of the systems of government, and of the realities of the worlds of financial and program management;
- systems knowledge and perspective in auditing.

During the course of our review we found numerous situations where capable internal audit directors were performing well below their potential. Frequently this was a result of a failure to develop appropriate organizational relationships and lack of informal support systems for themselves and their staff.

The role of the internal auditor, like that of many managers in government, is characterized by considerable uncertainty and ambiguity regarding both goals and accomplishments. The elapsed time from taking action to seeing results must often be measured in years rather than weeks or months. It is for this reason we believe that "support" is a most important ingredient for a successful audit operation

"Support" involves relationships with Deputy Ministers and senior management through ongoing dialogue and the formal planning process, contact with peers such as in the Ontario Public Service Internal Auditors' Council, and cohesive relationships within the audit branch itself. The need for objectivity and independence does not mean that auditors must carry out their extremely demanding assignments without the help and support of those around them. Finally, "support" can mean having a sense of central agency direction and commitment — this is discussed in Section 7, "Government-wide Issues and Recommendations".

Communications

- We recommend that the reporting process and report format be examined and redefined to ensure that:
 - audit objectives, scope, findings and conclusions are clear and mutually consistent;
 - the reporting process results in timely action by management;
 - there is follow-up by internal audit;
 - the content and format of reports add to the credibility of internal audit.
- We recommend that the Deputy Minister be provided with periodic reports as a basis for reliance to be placed on internal audit. These should include a comparison of achievements with plans and summaries of major recommendations. The Deputy Minister should meet with the head of internal audit after receipt of each such report to clear up possible misunderstandings, deal with unresolved issues, assess progress and agree on plans for the future.
- We recommend that the terms of reference be distributed to everyone whose work may be subject to audit. Consideration should be given to a communication program which would provide staff with an opportunity to ask questions and ensure that they understand the role and responsibilities of internal audit.

REPORTS ON INDIVIDUAL AUDITS

We believe that internal auditors must attempt to gain a greater understanding of the needs and responsibilities of various levels of management. This is essential if they are to have a sound basis for deciding which matters should be reported to program managers, financial managers, other functional managers and senior management. In one instance we found that individual reports were being sent to even different people in addition to the Deputy Minister with no clear indication as to who should be taking action. In other instances reports which included observations on financial systems were directed only to program managers.

The scope and objectives of each audit should be carefully explained so that the extent and nature of the work carried out can be readily understood and assessed.

Reports sent to the Deputy Minister should make it clear whether:

- (a) He can place overall reliance on the systems examined. Internal audit should, wherever possible, issue reports which provide overall assurances

with respect to major financial systems such as payroll and accounts payable.

- (b) There were some problems but these have been brought to the attention of management and steps are being taken to remedy them.
- (c) There are some relatively serious problems which are either being ignored by management or require action on the part of the Deputy Minister.

Efforts should be made to ensure that reports are issued on a timely basis and where an assignment extends over several months consideration should be given to the need for interim reports.

PERIODIC REPORTS

We believe that periodic reports followed by meetings between the Director and Deputy Minister can be useful as a basis for assessing plans and accomplishments. Such meetings also provide an opportunity to deal with unresolved issues, and to discuss matters which should be considered in reassessing audit priorities.

The following matters can be considered for possible inclusion in these reports:

- description of work carried out and reference to significant areas which were included in the plan but not audited;
- clear indication of the extent to which management can rely on systems and reports which were examined;
- summary of major findings and recommendations including discussion of recommendations which have not been implemented;
- overall assessment of major improvements and benefits which have resulted from the work of internal audit;
- discussion of potential problems and/or risks;
- plans for the succeeding period;
- changes in professional resources.

TERMS OF REFERENCE

We have recommended that the terms of reference be distributed to managers whose work may be subject to audit. We have also suggested that consideration be given to communication and education programs which would provide staff with an opportunity to ask questions and ensure that they understand the role and responsibilities of internal audit. In addition to reducing possible misunderstandings this should encourage the kind of behaviour which is consistent with laid-down financial controls and sound management practices. Clearly written terms of reference which are broadly understood are likely to have an immediate impact on the behaviour of everyone whose decision making processes could at some future date be reviewed by internal audit.

4.7 Government-Wide Issues and Recommendations. There are a number of government-wide issues which we believe need to be addressed by one or more of the central agencies.

At a meeting with the executive committee of the Internal Auditors' Council in January 1980, we were told that internal auditors did not believe they were receiving support from any central agency. This is understandable in view of the fact that neither the Management Board Secretariat nor the Treasury Division of the Ministry of Treasury and Economics had up to that time provided any ongoing guidance or leadership. As described in the Conclusion to this chapter, this situation has changed in recent months with the formation of the Task Force on Audit Policy as a part of the Management Board Secretariat's Management Standards Project.

Policies and guidelines, issued by both Management Board Secretariat and the Ministry of Treasury and Economics, have made it clear that the Deputy Minister has the primary responsibility for organizing and staffing an effective internal audit function. These policy statements and guidelines have also addressed the scope of internal audit, reporting relationships and auditing standards. The discontinuance of the Operational Review Branch of the Management Board Secretariat in January 1980, suggests that both these agencies are placing considerable reliance on Ministry internal auditors.

Role and Responsibilities of Central Agencies

What then should be the role of the Management Board Secretariat and/or the Ministry of Treasury and Economics with respect to internal audit? We have identified several broad issues which we believe need to be addressed in answering this question.

AUDIT AND MANAGEMENT ROLES

- There is in some ministries a considerable degree of confusion regarding the responsibilities of internal audit and the responsibilities of management. This is particularly evident with respect to program evaluation. In a recent policy paper published by the Comptroller General of Canada the position was adopted that "Although performing program evaluations is not an internal audit role, the program evaluation function is subject to internal audit."

This is consistent with the role of the Provincial Auditor and section 12(2)(f)(v) of The Audit Act, 1977, as amended, which requires the Provincial Auditor to report "Such matters as in his opinion should be brought to the attention of the Assembly including. . . . Where procedures could be used to measure and report on the effectiveness of programs, and the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory."

Another example of uncertainty relates to the responsibility of internal audit with respect to transfer payments which constitute some 70% of the total expenditures of the government. In some ministries we found that internal audit was spending much of its time carrying out detailed verification of payments to individual agencies, and was taking an active role in the negotiations of settlements where it appeared that adjustments were required. In such instances, internal audit had been drawn into a line

management or accounting function and has failed to examine the underlying ministry systems for grant administration.

In other ministries, internal audit has not examined systems relating to major transfer payment programs. Furthermore, they apparently have no authority to examine the books and records of the recipients of those payments. The extent to which both management and internal auditors should be entitled to rely on the work of the external auditors of such recipients requires study and clarification.

CROWN AGENCIES

- There are a great variety of Crown agencies. Because many are small and carry out limited responsibilities, there is no need for internal audit. On the other hand there are a number of large and medium sized Crown agencies, some of which have appointed their own internal auditors. We examined several such agencies in the course of our review.

Certain Crown agencies are audited by ministry internal auditors, whose role and responsibilities are sometimes set out in Memoranda of Understanding. Frequently, however, we found that the auditors' reporting relationships had not been clarified and in some cases it was not evident if anyone had even requested or authorized an audit: in these cases internal audit seemed to be operating without a client.

We realize that Crown agencies have been established for a number of different purposes, and organizational arrangements reflect the extent and nature of direction which the government provides. On the other hand all Crown agencies are accountable to a Minister and through him or her to the Legislature. Furthermore, ministries which provide funding to related Crown agencies are accountable for these expenditures. We believe there is a need for government-wide clarification and direction as to audit responsibility for Crown agencies.

MUNICIPALITIES

- For some time now it has been recognized that some municipalities are visited by internal auditors from many different ministries in the course of a year. In the case of larger municipalities it is likely that the auditors are examining records and questioning people in different departments. In the case of smaller municipalities, which make up the majority of the total number, it is conceivable that the same records are examined and the same people questioned several times by different auditors in the course of a year. Of equal concern, however, is the possibility that the auditing approach is both inefficient and ineffective, particularly if each auditor looks at specific transactions and no one evaluates the overall system for administering all funds received through transfer payments. As previously noted, steps are being taken to address this issue.

TRAINING AND DEVELOPMENT

- The final issue we have identified is that of training and development. We have emphasized the importance of a systems perspective in our memo-

randa to deputy ministers and agency heads. The type of educational program required to bring about the necessary changes in perspective might well be coordinated with advanced management training provided to senior levels of management within the ministries.

We believe that the Internal Auditors' Council can continue to play an important role in providing orientation and technical training for auditors. The kind of program required to bring about a significant change in perspective goes far beyond what is presently available to internal auditors. We believe that a comprehensive program of training and development should be given the highest priority.

This would involve conducting a full scale assessment of all training and education needs of internal auditors. It should lead to the development of a program specifically designed to provide the perspective, knowledge and skills required to conduct the type of systems based audits required in today's environment.

To be successful, much of this type of training would have to be integrated with on-the-job experience and might indeed involve a minimum amount of classroom time. The program should fully reflect the philosophy and policies currently being developed by Management Board Secretariat under its "Management Standards Project".

RECOMMENDATIONS

We therefore offer two recommendations as to the role of central agencies in relation to internal audit from a government-wide perspective.

1. All policies and directives relating to internal audit, issued by Management Board Secretariat and by the Ministry of Treasury and Economics, need to be reexamined in the light of the government's current objectives and priorities. Indeed, serious consideration should be given to withdrawing these policies and directives entirely. They could then be replaced with policies and directives which are consistent and fully integrated with the philosophy and approach being developed through the Management Standards Project, and which also reflect the current requirements of all central agencies.
2. One central agency should be given full responsibility for providing audit guidance to deputy ministers and support to internal audit. In view of the current initiatives of the Management Board Secretariat, it would appear reasonable for it to assume this responsibility. The Secretariat could then address the four issues described as well as reexamining and revising policies and guidelines as recommended in the preceding paragraph.

The acceptance of these two recommendations in conjunction with development of the audit approach for the Office of the Provincial Auditor described in Section 4.2 ("Purpose of Review") will result in a stronger network of roles and relationships to achieve sound management and accountability to the Legislature. The key components of such a network are the Public Accounts Committee (reviewing the report of the Provincial Auditor), the Management Board Secretariat, and the

Deputy Ministers responsible for administration of the Ministries. In practice it may be expected that:

1. *The Public Accounts Committee:*

- Will be in a position to exert real leverage in bringing about improvements and change;
- Will receive overall assurances about financial and management systems, controls and information;
- Will receive reliable information about major issues of government-wide and long term significance.

2. *The Management Board Secretariat:*

- Will receive "early warning signals" about government-wide issues and areas where systems and policies need revision, including those pertaining to internal audit;
- will receive overall assurances about financial and management systems, controls and information.

3. *The Deputy Ministers:*

- Will receive assurances about the reliability of their financial and management control systems, including internal audit;
- Will receive more favourable audit comments from the Office of the Provincial Auditor where steps have been taken to ensure sound systems and reliable, effective internal audit.

4.8 Conclusion. A number of developments have taken place in the past year which leads us to believe that significant improvements can be anticipated.

The Ontario Public Service Internal Auditors' Council has become increasingly active. In addition to adopting the Standards for the Professional Practice of Internal Auditing, it has published proposed "Guidelines for Systems and EDP Audits" and has made the decision to offer a one-week base level course in EDP auditing. These initiatives are in addition to the quarterly half-day seminars for auditors and the two-day annual conference for audit directors. The Council also offers a twice yearly two-day orientation course for new auditors.

In January 1980, on termination of its Operational Review Branch, the Management Board Secretariat initiated a series of studies and interviews with a broad cross-section of government management. The purpose of this work was to determine the need for a government-wide program aimed at overall improvement in the management process of the Ontario Public Service.

This led to the Management Standards Project being approved in principle by the Management Board and subsequently by Cabinet. In his letter to deputy ministers dated April 21, 1980 the Secretary of the Management Board said:

"Foremost on our minds is the need to ensure that any adoption of a common philosophy, principles and practices enhances your Ministry's ability to take the initiative, to be accountable and to adapt to your special environment."

On May 6, 1980, Management Board approved the formation of the Task Force on Audit Policy under the auspices of the Management Standards Project. Its terms of reference were drawn up to allow it to deal with three critical issues which had been identified:

1. What should be the role, scope and priorities of internal audit groups?
2. What are the key conditions, processes and reporting relationships essential for a successful audit program?
3. What are the financial, administrative, organization, training and other implications of enhancing the current level of audit activity?

The Task Force will issue a report to the Secretary of Management Board and material (e.g. booklets and guidelines) will be developed for use in the Management Standards Project. Management Board has identified internal audit as an integral and important part of the management process.

Management Responses

Our interviews with assistant deputy ministers, executive directors and other ministry officials indicated a high level of interest in the internal audit function.

Throughout meetings with deputy ministers at the conclusion of our reviews and subsequent discussions and correspondence we have observed the extent to which our recommendations have been accepted. Some ministries have accepted all recommendations and are in the process of implementation. Others have indicated relatively minor differences of opinion. In the case of one ministry we participated in a workshop where management and internal audit started to explore significant issues related to both terms of reference and the establishment of audit priorities; we subsequently received draft terms of reference for review and comment. Finally, there were a number of ministries which have not yet indicated how they intend to proceed. Even in these latter cases, however, our meetings with the deputy ministers and senior management lead us to believe that significant improvements will result from our reviews. The actual process of performing our review has been welcomed by many ministries as being of value.

Results

The project to review internal audit will have been successful, in our opinion, if there is evidence of the following results:

- Greater understanding of the role of internal audit (and the conditions needed to fulfil that role) on the part of legislators, deputy ministers, central agencies, internal auditors and personnel at all levels of organizations subject to internal audit;
- Emergence of new initiatives and efforts to coordinate the development of and provide support to internal audit from a government-wide perspective within the context of new management standards;
- Enhancement of public confidence in the Ontario government system as one which is seeking to improve its own effectiveness and accountability processes in as economical and efficient a way as possible;

- Greater self-confidence on the part of internal auditors and strengthening of internal audit resources and practices in individual ministries and agencies;
- Cooperative dialogue among all auditors both external and internal as to how to plan and achieve the best value for public audit dollars;
- Increased internal audit effectiveness in terms of assurances, information and change.

Even during the conduct of the project there has been evidence of some of these results. We will be looking for continuing reactions to and discussions about the project at various levels and in various circles of government.

5.

PUBLIC ACCOUNTS OF THE PROVINCE

5.1 Preparation of the Public Accounts. The Public Accounts, which are published in three volumes, are prepared under the direction of the Treasurer of Ontario as stipulated in section 13 of The Ministry of Treasury and Economics Act, 1978. This section reads as follows:

"The Public Accounts for each fiscal year shall be prepared under the direction of the Treasurer and shall be delivered to the Lieutenant Governor in Council and laid before the Assembly not later than the tenth day of the first session held in the following calendar year."

The audit of the Public Accounts consists of an examination of the financial statements of the Province appearing in Volume 1, on which the Provincial Auditor expresses an opinion.

Volume 2 contains reproductions of audited financial statements of Crown agencies:

- a) in which the Province has an investment, or
- b) which have borrowed from the Province, or
- c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of expenditure for each Ministry. Such expenditure is shown under two main categories, Voted Appropriations (salaries and wages, employee benefits, travelling expenses and other payments) and Statutory Appropriations. Such details are not reviewed by this Office prior to publication, but are subject to examination during our subsequent post-audit of the Ministry concerned.

5.2 Expression of Opinion on the Financial Statements of the Province. The expression of opinion referred to in the preceding section appears on page 1-13 of Volume 1 of the 1979-80 Public Accounts, and also forms part of Exhibit 1 of this report. As part of this opinion, the Provincial Auditor is required to report whether the accounting principles stated in the Public Accounts have been applied on a basis consistent with that of the preceding fiscal year.

As covered in note 13 of the financial statements (see Exhibit 1), in the 1979-80 fiscal year, the Province discontinued its former practice of holding Government of Canada revenue accounts open (and recording applicable revenue) for a period of three weeks after the March 31 fiscal year end. Commencing with the March 31, 1980 fiscal year end, Government of Canada revenues are now closed on a basis consistent with all other revenues, which is cash received or in transit at March 31.

As a result of this change, with which we concurred, the Province's total budgetary revenue (\$14,214 million) was \$50 million less, and the budgetary deficit for the year (\$1,132 million) was \$50 million more, than would have been the case if the former practice had been continued. Accordingly, the Provincial Auditor's opinion, as it relates to consistency, has been qualified.

5.3 Changes in Format, Financial Statements of the Province. Certain revisions were made in the format of the Province's financial statements for the year ended March 31, 1980, the most significant of which we believe should be described at this point.

Regarding comparative figures, as in previous years, comparative amounts are shown for the preceding fiscal year (1978-79). However, for the statements of consolidated revenue fund, budgetary revenue, budgetary expenditure, non-budgetary transactions and debt transactions, comparative figures are now being shown for the budget for the year ended March 31, 1980, as presented by the Treasurer of Ontario to the Legislative Assembly on April 10, 1979.

From time to time, the Province issues U.S. dollar debentures on behalf of Ontario Hydro. The proceeds of these debentures are then advanced to Ontario Hydro, in exchange for U.S. dollar bonds with the same terms and conditions as the debentures of the Province. Previously, the results of these transactions were included in the statements of consolidated revenue fund, budgetary revenue, budgetary expenditure, non-budgetary transactions and debt transactions. In any year, the overall end result of these reciprocal transactions is that payments are always equal to recoveries. Commencing with the 1979-80 fiscal year, since these transactions are the result of a financing alternative and are not part of the Province's own budget plan, they are now all being combined and reflected on a new statement, called the statement of Ontario Hydro transactions, which is shown as a separate component of the statement of consolidated revenue fund.

5.4 Summary of Significant Accounting Policies. On the basis of evidence examined, the Provincial Auditor endeavours to arrive at an opinion as to the fairness and consistency of the Province's financial statements, and as to the degree of their compliance with established accounting principles. In most activities other than those of governments, these are known as "generally accepted accounting principles". Because generally accepted accounting principles have not yet been established for governments, it is usual to report on the degree of compliance with stated accounting policies.

Accordingly, an integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on page 1-2 of Volume 1 of the 1979-80 Public Accounts, which forms part of Exhibit 1 of this Report.

Such Summary is included as an integral part of the financial statements in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of government accounting, especially when compared to practices followed

in the private sector, the accounting policies stated in the Summary have particular importance to a reader who desires to have an adequate understanding of the Public Accounts.

5.5 Arbitrary Financial Recording Practices, Modified Cash Basis of Accounting.

As stated in the Summary of Significant Accounting Policies, the Province uses the cash basis of accounting for its financial transactions, modified to allow an additional thirty days to pay for goods and services pertaining to the fiscal year just ended. In other words, revenue is recorded when it is received and, with the exception of the preceding modification, expenditure is recorded when payments are made.

It should be emphasized that use of this modified cash basis of accounting can, at times, give rise to a certain flexibility in the recording of financial transactions, affecting the financial statement figures shown for the budgetary deficit and the net cash requirements for the year, as well as the reported net debt.

Examples of our concerns in this regard are set out in the following paragraphs.

Recording of Year End Revenue

Section 72 of our 1978-79 Report dealt with the recording of \$22,467,746 received from the Department of Finance (Canada) regarding Ontario Income Tax. Rather than having this amount deposited and recorded prior to March 31, 1979, it was deposited on April 2, 1979, pursuant to the request of the Ministry of Treasury and Economics. This intentionally delayed receipt resulted in \$22,467,746 being credited to revenue in the 1979-80 fiscal year rather than in the 1978-79 fiscal year.

We noted a similar situation had occurred as at March 31, 1980. Revenue amounting to \$33,059,335 from the Department of Finance (Canada) was deposited to the credit of the Province of Ontario on April 1, 1980. According to March 1980 correspondence from the Director, Federal-Provincial Relations Division, Department of Finance (Canada) addressed to the Controller of Revenue of the Ministry of Revenue, this amount was deposited on April 1, 1980 at the request of Ontario Treasury officials. It is our opinion that this amount could and should have been deposited in the 1979-80 fiscal year. The course of action taken resulted in \$33,059,335 being credited to revenue in the 1980-81 fiscal year rather than in the 1979-80 fiscal year.

In both of the preceding instances, revenue was recorded on the day of receipt in accordance with the modified cash basis of accounting. However, the day of receipt was predetermined by the Ministry of Treasury and Economics.

Accelerated Payment of Local Government Grants

As covered in note 12 to the Province's financial statements for the year ended March 31, 1980 (see Exhibit 1), the Government tabled Supplementary Estimates in March 1980 to permit earlier payments of grants to school boards and municipalities than had been the practice in previous fiscal years. As a result, the budgetary expenditures for the Ministries of Education and Intergovernmental

Affairs were increased by \$82 million and \$143 million respectively for payments which otherwise would have been made in the 1980-81 fiscal year.

The Treasurer, as part of the 1980-81 Ontario Budget paper, noted that these accelerated payments were made in order to minimize the interim financing needs and thus reduce the interest costs of school boards and municipalities. The Budget further noted that this action was possible because of the Province's strong financial position. (Actual budgetary revenue for the 1979-80 fiscal year was \$14.21 billion, as compared to budgeted revenue of \$13.45 billion.) Additionally, the Budget noted that it was not anticipated that this action would be repeated next year.

To us, it is a matter of conjecture as to whether these accelerated grants resulted mainly from a valid demonstrated need therefor, or from a desire to more closely relate the actual deficit for the year (\$1.13 billion) to the budgeted deficit for the year (\$1.66 billion).

An additional factor that should be noted in connection with these accelerated grants is the resulting loss of interest revenue to the Province. Had the payments not been accelerated, interest on these funds accruing to the Province would have exceeded \$3 million.

Construction of Northern Affairs Pavilion

By agreement dated March 5, 1980, the Ministry of Northern Affairs agreed to construct a series of buildings named "Ontario North Now" at Ontario Place. For accounting purposes, Ontario Place Corporation acted as a conduit, accepting payments from the Ministry of Northern Affairs out of which the Corporation paid contractors engaged in the construction of the buildings.

As at March 31, 1980, the Corporation had incurred expenditures of \$198,230 on these buildings. However, they had received a total of \$770,000 from the Ministry for such buildings, or \$571,770 in excess of the expenditures that had actually been incurred. The Ministry charged the entire \$770,000 to Expenditure (Acquisition/Construction of Physical Assets) in the 1979-80 fiscal year.

This course of action resulted in \$571,770 being charged to expenditure in the 1979-80 fiscal year rather than in the 1980-81 fiscal year. In our opinion, this is unacceptable even under the modified cash basis of accounting, since the relevant goods and services had not been received prior to March 31, 1980.

At its meeting of May 22, 1980, the Standing Public Accounts Committee reviewed section 72 of our 1978-79 Report, which dealt with the aforementioned delayed recording of \$22,467,746 in revenue from Canada. The Deputy Treasurer of Ontario, who attended the meeting, addressed this situation, in part, as follows:

"... it was felt that moving the \$22 million into the next fiscal year would be preferable. We had already taken care of, we had achieved what we thought was a reasonable balance for the public expenditures and the revenues in the 1978-79 fiscal year. Our greatest concern was with the revenue flows we would have in the following year, and it was for that reason that we asked Ottawa ... to that amendment which is

not unusual, through which we would both agree to the payment of the cheque after the thirty-first and on the second."

The subject of accelerated grants to school boards and municipalities was also discussed at the May 22 Committee meeting. In this regard, the Deputy Treasurer's comments, in part, were as follows:

"In the moving of moneys and the moving of the specific, in this case, of a couple of hundred million dollars into a year in which you have exceedingly and unexpectedly buoyant revenues, permits that year to have an increase in what its deficit otherwise would have been. Even with that transfer, the deficit, as it was actual, was substantially less than the deficit as originally contemplated in the budget for that year.

"What we were, in fact, doing was trying to maintain a level, an evenness, in so far as it was possible, between expenditures and revenues in given years, so that the cash requirement level, which is exceedingly important in any government operation, maintains its stability."

In reply to a Committee member's question, as to whether these accelerated grants resulted solely from high interest rates and representations from municipalities, the Deputy Treasurer said:

"No, it was as you pointed out, sir, and these other members have commented on. It was the effect it would have upon the cash requirements and the deficit levels between the two years. It involves some—it was described as gilding the lily in another language.

"In the process I follow, it was a balancing and trying to achieve more of an equality between cash requirements as we see them developing so that again, for the purposes of being able to keep things on the proper track, it would move \$200 million. It would go onto the deficit which was unusually low in one fiscal year, and thereby reduce the deficit which was still below our previously published target for the next fiscal year."

In summary, in all material respects, the Province's financial statements present fairly the results of its operations and its financial position in accordance with the modified cash basis of accounting.

However, in our opinion, the cumulative effect of transactions such as those covered in the preceding paragraphs tends to detract from the credibility of the financial statements. For example, it appears to us that the main motivation for the delayed deposit and recording of revenue from Canada on April 1, 1980 and the accelerated grant payments, was a desire to more closely match the actual results for the year with the budgeted results. Were it not for these transactions, the actual budgetary deficit for the 1979-80 fiscal year would have been \$874 million, rather than the reported \$1.13 billion.

5.6 Recorded Advances and Investments Repayable from Annual Expenditure Appropriations. Page 2-28 of Volume 1 of the 1979-80 Public Accounts indicates

the balances of advances or investments by the Province in Corporations, Boards, and Commissions other than Ontario Hydro. Subsequent pages in the Public Accounts comment on the nature of these organizations and the terms of the relative advances and investments made by the Province. Volume 2 of the 1979-80 Public Accounts contains the financial statements of these organizations.

The balances recorded in the Public Accounts do not necessarily represent the amounts the Province expects to truly realize. For example, advances of \$1,174,249,378 to The Ontario Universities Capital Aid Corporation as at March 31, 1980 are repayable out of future years' Provincial expenditure appropriations. Under a program discontinued in 1978, the Corporation used funds advanced by the Province to purchase bonds and debentures issued by colleges, universities and related institutions for capital construction purposes. Utilizing moneys appropriated annually by the Legislature the issuing institution redeems its debentures, with interest, over their term. The Corporation, in turn, utilizes the redemption proceeds to repay, with interest, its advances from the Province.

Additionally, the situation with respect to the repayment of advances of \$1,274,002,407 made by the Province to The Ontario Education Capital Aid Corporation is somewhat analogous to that outlined in the preceding paragraph. To a large extent, the advances by the Province to this Corporation are also repayable out of future years' Provincial expenditure appropriations.

Advances to Ontario Development Corporation and Northern Ontario Development Corporation as at March 31, 1980 included advances with respect to forgivable performance loans made by these Corporations in the outstanding amounts of \$5,941,415 and \$1,494,876 respectively. The major portion of advances by the Province to these Corporations with respect to forgivable performance loans is also repayable out of future years' Provincial expenditure appropriations.

Performance loans were made by these Corporations to persons establishing, or substantially expanding, an industrial undertaking in an area of equalization of industrial opportunity. Such loans are non-interest bearing and are subject to principal forgiveness. Forgiveness is contingent upon the borrower operating his business in a manner satisfactory to the Corporations. When borrowers' loan principal is forgiven, moneys appropriated by the Legislature for the purpose of loan forgiveness are utilized by the Corporations to repay their corresponding advance indebtedness with the Province.

The financial statements of The Crop Insurance Commission of Ontario, which appear in Volume 2 of the 1979-80 Public Accounts, show an accumulated deficit of \$49,331,416 as at March 31, 1980, as compared with a deficit of \$12,294,656 at March 31, 1979. During the 1979-80 fiscal year the Commission incurred substantial losses due to tobacco crop claims, resulting in an increase in advances from the Province, from \$10,115,786 at March 31, 1979 to \$47,682,311 at March 31, 1980. In our opinion, it remains to be seen whether the Province will be able to recover the advances from the Commission or whether recourse will have to be made to future years' Provincial expenditure appropriations to provide the funds necessary for the repayment of the advances.

5.7 Comments on Financial Statements. The financial statements of the Province are presented on a comparative basis and rounded to millions of dollars. The financial statements and notes disclose in summary form the major financial activities of the Province in the fiscal period and report on the significant aspects of financial position at the close of the fiscal period.

The transactions of the Province are presented through the Statement of Consolidated Revenue Fund in summary form according to the four distinct areas of government activity:

- “Budgetary Transactions” are the operational activities involving the raising of revenue from various sources on the one hand, and the expenditure for various government programs on the other.
- “Non-Budgetary Transactions” are the lending, investment and trust administration functions.
- “Debt Transactions” are the borrowing and repayment transactions.
- “Ontario Hydro Transactions” relate to the debt transactions undertaken by the Province on behalf of Ontario Hydro.

The Statement of Assets and Liabilities reflects the financial claims which have been created by cash transactions. The assets are claims by the Consolidated Revenue Fund on other parties. The liabilities are claims by others on the Consolidated Revenue Fund. As expenditures on fixed assets do not represent financial claims on other parties they are treated as non-recoverable expenditure in the year of acquisition.

Subsequent sections of this Chapter generally serve to highlight certain aspects of the financial statements of the Province, together with certain related matters.

5.8 Payments out of the Consolidated Revenue Fund. Payments out of the Consolidated Revenue Fund are classified as Expenditure (Budgetary Transactions), Disbursements and Charges (Non-Budgetary Transactions) and Retirements of Loans (Debt Transactions).

Budgetary Expenditure includes payments for goods and services, salaries, interest on public debt, subsidies and grants, and acquisition or construction of fixed assets. Disbursements are payments made in respect of investments, loans and advances, while Charges are payments made from pension funds, deposit, trust and reserve accounts. Retirements of Loans are payments in respect of the debt obligations of the Province.

Payments out of the Consolidated Revenue Fund are of two major types: those pursuant to Estimates, including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by legislation cited as The Supply Act, may be augmented by Management Board Orders. The nature of Management Board Orders is more fully explained in section 5.9.

A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of this authority is more fully explained in section 5.10. For fiscal years 1978-79 and 1979-80, no such payments have been made.

A summary of the payments out of the Consolidated Revenue Fund by type and classification is as follows:

<i>Payments re</i>	<i>1979-80</i> \$	<i>1978-79</i> \$
Voted Appropriations		
Per Legislative Assembly		
Budgetary Expenditure	13,597,479,732	12,199,104,327
Disbursements	173,607,255	233,138,843
Charges	—	—
	<u>13,771,086,987</u>	<u>12,432,243,170</u>
Per Management Board Orders		
Budgetary Expenditure	135,969,169	53,738,119
Disbursements	—	—
Charges	—	—
	<u>135,969,169</u>	<u>53,738,119</u>
Total Voted Appropriations	<u>13,907,056,156</u>	<u>12,485,981,289</u>
Statutory Appropriations		
Budgetary Expenditure	1,612,416,604	1,659,665,821
Disbursements	177,040,821	145,238,300
Charges	133,308,551	122,378,449
Retirements of Loans	434,623,110	110,898,698
Total Statutory Appropriations	<u>2,357,389,086</u>	<u>2,038,181,268</u>
Total Payments	<u>16,264,445,242</u>	<u>14,524,162,557</u>

Reference has been made in section 5.3 to Ontario Hydro transactions. Since these transactions are not part of the Province's own budget plan, and since these transactions flow through the Consolidated Revenue Fund without increasing or decreasing the overall balance in the Fund, they have not been included in the preceding summary.

5.9 Management Board Orders. Section 5 of The Management Board of Cabinet Act, 1971 provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper.

Sixty-seven Management Board Orders were issued in respect of the 1979-80 fiscal year. In total, expenditure of \$161,890,065 was so authorized, representing a significant increase from the expenditure of \$64,771,438 authorized by fifty Management Board Orders in the 1978-79 fiscal year. The amounts authorized by Management Board Orders averaged approximately \$2,400,000 and ranged from \$5,000 to \$28,216,000. A listing of Management Board Orders, showing the amounts authorized and expended thereunder, is included as Exhibit 2 to this Report. A total of 313 items were included in the Management Board Orders and are detailed in the Exhibit.

By way of additional information, the Management Board Orders with respect to the 1979-80 fiscal year are summarized as follows by month of issue:

<i>Month of Issue</i>	<i>Number</i>	<i>Authorized</i>	<i>%</i>
December 1979	1	341,575	.21
January 1980	4	1,848,590	1.14
February 1980	10	5,888,200	3.64
March 1980	25	80,053,700	49.45
April 1980	27	73,758,000	45.56
	<u>67</u>	<u>161,890,065</u>	<u>100.00</u>

In accordance with Standing Order number 51 of the Legislative Assembly, the preceding Management Board Orders have been printed in The Ontario Gazette, with an explanation of significant variances from the printed Estimates.

5.10 Special Warrants. Section 4 of The Management Board of Cabinet Act, 1971 provides for the issue of a Special Warrant, when the Legislature is not in session, authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

No Special Warrants were issued during the fiscal year ended March 31, 1980.

5.11 Board of Internal Economy. Section 85 of The Legislative Assembly Act, as amended, reads: "The Board of Internal Economy may authorize the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same vote and the Provincial Auditor shall make special mention in his report of any transfer under this section". In respect of the 1979-80 Expenditure Estimates, the following transfers, totalling \$594,426, were made within Vote 1001:

from Item 1 Office of the Speaker	\$ 46,230
Item 2 Office of the Clerk	7,804
Item 3 Chief Election Officer	13,153
Item 5 Sessional Requirements	170,492
Item 8 Caucus Support Services	1,327
Item 10 Constituency Offices	355,420
to Item 4 Hansard	86,661
Item 6 Members' Indemnities	384,838
Item 7 Members' Support Services	19,025
Item 9 Administration	50,566
Item 11 Commission on Election Contributions and Expenses	5,769
Item 12 Legislative Library	26,735
Statutory Contribution to Legislative Assembly Retirement Allowances Account	20,832

5.12 Certificate of the Management Board of Cabinet. Section 1(2) of The Supply Act, 1979 reads as follows:

"Where, in the fiscal year ending the 31st day of March, 1980, powers and duties are assigned and transferred from one minister of the Crown to another

minister of the Crown, the appropriate sums in the votes and items of the estimates and supplementary estimates upon which the Schedule is based that are approved to defray the charges and expenses of the public service in the exercise and performance of such powers and duties, may be assigned and transferred from time to time as required by certificate of the Management Board of Cabinet to the ministry administered by the minister to whom the powers and duties are so assigned and transferred."

On January 22, 1980 the Management Board of Cabinet issued a Certificate of Transfer, for \$661,400, to effect the transfer of Protocol Services to the Ministry of Intergovernmental Affairs, Vote 601-1 from the Ministry of Government Services, Vote 504-12.

5.13 Voted Appropriations — Comparison of Authorized and Actual Payments.

This comparison for the fiscal year ended March 31, 1980 is as follows:

	Authorized \$	Actual \$	Actual Under (Over) Authorized \$
Voted Appropriations			
Per Legislative Assembly			
Budgetary Expenditure	13,872,231,500	13,597,479,732	274,751,768
Disbursements	196,506,000	173,607,255	22,898,745
Charges	—	—	—
	<u>14,068,737,500</u>	<u>13,771,086,987</u>	<u>297,650,513</u>
Per Management Board Orders			
Budgetary Expenditure	161,890,065	135,969,169	25,920,896
Disbursements	—	—	—
Charges	—	—	—
Total Voted Appropriations	<u>14,230,627,565</u>	<u>13,907,056,156</u>	<u>323,571,409</u>

It will be noted that the amount of \$14,068,737,500 appropriated by the Legislative Assembly in itself exceeded the total actual payments of \$13,907,056,156. Where individual votes and items were of insufficient amount, funds in excess of those authorized by the Legislative Assembly were made available under the authority of Management Board Orders.

5.14 Statutory Appropriations. During the 1979-80 fiscal year Statutory Appropriation payments made under the authority of 31 Acts exceeded \$2.3 billion. This expenditure constituted 14.5 per cent of the total payments out of the Consolidated Revenue Fund. Comparative percentages for the 1978-79 and 1977-78 fiscal years were 12.3 and 11.8 respectively.

A summary, by authorizing legislation, of the five highest accumulated payments follows:

	1979-80 \$	1978-79 \$
The Financial Administration Act	1,863,585,570	1,368,002,790
The Teachers' Superannuation Act	128,606,599	120,360,707
The Public Service Superannuation Act	82,897,718	70,668,048
The Ontario Education Capital Aid Corporation Act	69,039,000	70,922,000
The Superannuation Adjustment Benefits Act	67,010,554	51,875,899
	<u>2,211,139,441</u>	<u>1,681,829,444</u>

Expenditure under the above Acts for the fiscal years 1979-80 and 1978-79 accounted for 93.8 per cent of total Statutory Appropriation payments made in both fiscal years. Public Debt interest expenditure of \$1.408 billion and \$1.230 billion for fiscal years 1979-80 and 1978-79 respectively is included in the amount shown under The Financial Administration Act.

Excluded from the above figures are statutory appropriations relating to Ontario Hydro transactions which can be summarized as follows:

	1979-80 \$	1978-79 \$
The Financial Administration Act		
Ontario securities issued on behalf of Ontario Hydro:		
— interest paid	315,992,485	244,434,496
— securities retired	86,234,000	82,737,000
The Power Corporation Act		
Advances to Ontario Hydro	300,000,000	750,000,000
	<u>702,226,485</u>	<u>1,077,171,496</u>

For reference purposes, 1979-80 statutory payment activity is summarized in Exhibit 3 of this Report.

5.15 Statement of Budgetary Expenditure. The Statement of Budgetary Expenditure is contained in Volume 1 of the 1979-80 Public Accounts and is reproduced in Exhibit 1 to this Report. A more detailed analysis of total budgetary expenditure can be obtained by the use of the standard accounts classifications. Under these classifications the budgetary expenditure for the fiscal years 1979-80 and 1978-79, as shown on pages 2-15 and 33, respectively, of Volume 1 of the Public Accounts may be summarized as follows:

	1979-80 \$	%	1978-79 \$	%
Transfer Payments	11,020,012,779	71.8	10,061,275,409	72.3
Salaries and Wages	1,477,606,650	9.6	1,347,377,552	9.7
Other Transactions				
— Public debt expenditure (interest on debentures, etc.)	1,407,564,397	9.2	1,229,844,470	8.8
— Other	57,263,437	.4	48,594,067	.4
Services	518,127,172	3.4	471,583,926	3.4
Acquisition/Construction of				
Physical Assets	443,611,987	2.9	371,182,289	2.7
Supplies and Equipment	297,558,850	1.9	260,652,473	1.9
Employee Benefits	241,661,401	1.6	226,756,531	1.6
Transportation and Communication	117,886,749	.7	102,571,585	.7
	<u>15,581,293,422</u>		<u>14,119,838,302</u>	
Less: Recoveries from other Activities, Ministries, etc. ..	235,427,917	(1.5)	207,330,035	(1.5)
Total Budgetary Expenditure	<u>15,345,865,505</u>	<u>100.0</u>	<u>13,912,508,267</u>	<u>100.0</u>

Transfer payments represent expenditure made to individuals, organizations and other levels of government, and for which the Province does not directly re-

ceive goods or services. Such expenditure is made in accordance with legislation or established Ministry policy.

Recoveries from other Activities and Ministries relate mainly to costs incurred by certain Ministries, on behalf of other Ministries, which are subsequently recovered from the benefiting Ministries. For Public Accounts presentation purposes, these recoveries are generally not netted against the particular expenditure category or sub-category (e.g. salaries and wages, services, etc.) but are deducted in total from aggregate expenditure.

The other standard accounts classifications are largely self-explanatory; however, a more detailed description of the type of expenditure included in each classification is contained on pages viii-ix of Volume 1 of the 1979-80 Public Accounts.

In 1979-80 over \$7.8 billion, or more than 71 per cent of the total transfer payments, was expended by three Ministries. The comparable figures for 1978-79 were \$7.3 billion and 73 per cent, respectively. A summary of the payments by the three Ministries, including identification of major categories, is as follows:

<i>Ministry</i>	<i>Category</i>	<i>1979-80</i> \$	<i>1978-79</i> \$
Health	Operation of hospitals and related facilities	2,160,988,137	2,054,231,727
	Payments re physicians' and practitioners' services under O.H.I.P.	1,122,035,330	1,023,264,293
	Other transfer payments	686,871,367	606,506,804
		<u>3,969,894,834</u>	<u>3,684,002,824</u>
Education	General Legislative Grants (payments to school boards)	2,120,618,585	1,968,800,648
	Payment to Teachers' Superannuation Commission	347,197,859	329,504,182
	Other transfer payments	13,690,293	15,502,286
		<u>2,481,506,737</u>	<u>2,313,807,116</u>
Colleges and Universities	Grants for Universities and related organizations	884,614,632	848,973,429
	Grants for Colleges of Applied Arts and Technology, etc.	448,728,157	417,334,697
	Other transfer payments	93,439,806	86,720,083
		<u>1,426,782,595</u>	<u>1,353,028,209</u>
Total		<u>7,878,184,166</u>	<u>7,350,838,149</u>

5.16 Write-Off of Uncollectable Accounts. Section 14 of The Financial Administration Act reads as follows:

"14.—(1) Where a person has an obligation or debt due to the Crown or the Crown has a claim against a person, the Treasurer may, subject to any other Act affecting such obligation, debt or claim, negotiate and accept a settlement in payment and satisfaction of such obligation, debt or claim, or may determine that any such obligation, debt or claim is uncollectable.

(2) The Lieutenant Governor in Council, on the recommendation of the Treasurer, may, if he considers it in the public interest, delete from the

accounts any loss incurred in any settlement or determination made under subsection 1. . . .

(3) The losses deleted from the accounts during any fiscal year shall be reported in the Public Accounts for that year. . . ."

A summary of the losses deleted from the accounts for the past five years is as follows:

1975-76	\$ 5,675,684
1976-77	7,310,545
1977-78	23,502,201
1978-79	17,454,136
1979-80	15,342,289

During the 1979-80 fiscal year 14 Orders in Council were passed authorizing the deletion of losses from the accounts. Deleted losses totalled \$15,342,289 and are summarized by Ministry on page 3-15 of Volume 1 of the Public Accounts. The following additional comment is provided for some of the larger write-offs.

Over 2,200 uncollectable accounts of the Motor Vehicle Accident Claims Fund amounting to \$4,332,204 were written off by the Ministry of Consumer and Commercial Relations. Most of the accounts written off had balances of less than \$5,000. The major portion of the total write-offs pertained to claims/judgements, at least 15 years old, on which no payments had been made for at least 5 years.

The Ministry of Revenue wrote off \$2,768,453 with respect to GAINS overpayments and various unpaid taxes. The major write-offs were as follows:

The Ontario Guaranteed Annual	
Income Tax Act, 1974 (GAINS)	1,005,823
The Retail Sales Tax Act	852,661
The Corporations Tax Act	741,838

The Ministry of Colleges and Universities wrote off \$2,662,485, of which \$2,571,119 represented disallowances by the Government of Canada for claims submitted for the fiscal years 1971-72 to 1973-74 under the Adult Occupational Training Agreement.

5.17 Deposit, Trust and Reserve Accounts — Superannuation Adjustment Fund.

This fund was established by The Superannuation Adjustment Benefits Act, effective July 18, 1975, to provide a cost of living adjustment to persons in receipt of pensions payable out of pension funds to which contributions are paid directly or indirectly out of the Consolidated Revenue Fund. The regulations under the Act designate the pension plans to which the Act applies. Pension plans so designated at March 31, 1980 were the Teachers' Superannuation Plan, the Public Service Superannuation Plan, the Retirement Pension Plan of Ryerson Polytechnical Institute and the Caucus Employees Retirement Plan.

The balance in the Fund, which is on deposit with the Treasurer of Ontario, totalled \$347,153,832 at March 31, 1980. For the 1979-80 fiscal year, receipts and disbursements amounted to \$106,117,789 and \$10,430,341 respectively. A

statement of the Fund and supplementary statements for each participating plan are shown in Volume 1 of the 1979-80 Public Accounts, pages 3-6 to 3-10.

Payments into Superannuation Adjustment Fund

Under the Act, contributors to participating pension plans contribute one per cent of their salaries to the Adjustment Fund and these contributions are matched by the employer. There will be no change in the rate of contribution before January 1, 1981.

Regulations under the Act have established a review committee for each of the four designated plans. The committees are comprised of representatives of the employers and contributors, and periodically review:

- (a) the rate of contributions to the Fund by the employer and contributors; and
- (b) their accounts maintained under the Fund in relation to such pension plans;

and make any recommendations related thereto to the Minister.

As previously mentioned, the balance in the Adjustment Fund is on deposit with the Treasurer of Ontario. Interest is credited to the Fund at the close of each fiscal year out of the Consolidated Revenue Fund at a rate and in a manner which is determined from time to time by the Lieutenant Governor in Council. Interest credited for the 1979-80 fiscal year totalled \$28,025,294. Of this amount \$19,101,790 related to the Teachers' Superannuation Plan and \$8,830,008 to the Public Service Superannuation Plan. The 1979-80 interest rate for these plans was:

11.44 per cent per annum, provided that the net amount remains on deposit with the Consolidated Revenue Fund for not less than 15 years.

Payments out of Superannuation Adjustment Fund

Cost of living adjustment benefits are paid out of the Adjustment Fund to only those recipients who had contributed to the Fund. Benefits are determined annually, based on the increase in the Consumer Price Index (C.P.I.) for Canada up to a maximum of 8 per cent in any year. In years where the C.P.I. increases more than 8 per cent, the amounts in excess of the 8 per cent are accumulated and paid out in years when the C.P.I. increases less than 8 per cent. Since 1975, the C.P.I. increase in every year, except for 1977 when it was 7.2 per cent, has been over 8 per cent. The maximum cost of living adjustment of 8 per cent has been paid in every year since the inception of the Act.

Payments out of Consolidated Revenue Fund

The employer, in addition to matching the contributions of those contributors to the Adjustment Fund, is required under the Act to pay cost of living adjustments to those recipients who had not contributed to the Adjustment Fund by reason of retirement before the establishment of the Act. Prior to The Superannuation Adjustment Benefits Act, 1975, ad hoc cost of living adjustments were made by the Province to recipients of pensions under The Teachers' Superannuation Act and The Public Service Superannuation Act. Cost of living adjustment payments are still being made under these two Acts in order to maintain the appropriate level of

benefits for pensioners who retired before the commencement of The Superannuation Adjustment Benefits Act, 1975.

Major pension plans designated under The Superannuation Adjustment Benefits Act, 1975 are the Teachers' Superannuation Plan and the Public Service Superannuation Plan. For both of these plans the Province is deemed to be the employer. Consequently, matching contributions and payments of benefits to those pensioners who had not contributed to the Adjustment Fund are made by the Province through the Ministry of Education and the Ministry of Government Services respectively. Expenditure in this regard and ad hoc cost of living adjustments authorized under The Teachers' Superannuation Act and The Public Service Superannuation Act for the 1979-80 fiscal year, with comparable figures for the preceding year, were:

	1979-80	1978-79
	\$	\$
Province's matching contributions to Adjustment Fund		
Teachers' Superannuation Plan	24,047,333	22,203,413
Public Service Superannuation Plan	12,659,895	11,608,659
Total	36,707,228	33,812,072
Province's payments for benefits to non-contributors to Adjustment Fund		
Teachers' Superannuation Plan	50,105,807	42,501,942
Public Service Superannuation Plan	25,013,343	21,231,983
Total	75,119,150	63,733,925
Total Payments out of Consolidated Revenue Fund	111,826,378	97,545,997

It is interesting to note that the cost to the Province for benefits to non-contributors currently is more than double the cost to the Province for matching contributions to the Fund.

Contributors and Recipients

Based on information supplied to us with respect to the Teachers' Superannuation Plan and the Public Service Superannuation Plan, the number of contributors to the Adjustment Fund and recipients of cost of living adjustments at March 31, 1980, except as noted below, was as follows:

	No.
Contributors to Adjustment Fund:	
Teachers' Superannuation Plan (at December 31, 1979)	133,486
Public Service Superannuation Plan	78,721
Total	212,207
Recipients of cost of living adjustments	
Contributors to Adjustment Fund:	
Teachers' Superannuation Plan	4,706
Public Service Superannuation Plan	6,337
Total	11,043
Non-contributors to Adjustment Fund:	
Teachers' Superannuation Plan	16,396
Public Service Superannuation Plan	12,682
Total	29,078
Total	40,121

OFFICE OF THE PROVINCIAL AUDITOR

6.1 Primary Audit Responsibilities. The primary audit responsibilities of the Provincial Auditor are twofold, and involve the examination of:

- (i) The accounts of the Province in accordance with his appointment as auditor under The Audit Act, 1977, as amended.
- (ii) The accounts of agencies of the Crown in accordance with his appointment as auditor under various related statutes or other appropriate authorities.

The examination of the accounts of the Province for the year ended March 31, 1980 was made in conformity with section 9(1) of the Act, which reads as follows:

"The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise."

All Ministries were subject to audit in accordance with section 9(1) throughout the 1979-80 fiscal year. A listing of such audits covered by this Report appears in Exhibit 5.

Agencies of the Crown are defined in section 1(a) of The Audit Act, 1977, as amended, which has been reproduced as part of section 3.1 of this Report. For the year ended March 31, 1980 the Provincial Auditor had direct audit responsibility for fifty-two such Agencies pursuant to his appointment as auditor by shareholders, governing bodies or under various statutes. These Agencies are listed as parts (i) and (ii) of Exhibit 6 to this Report.

In the case of seven additional Agencies shown as parts (iii) and (iv) of Exhibit 6, public accountants have been designated as auditors. However, pursuant to section 9(2) of the Act, these audits are performed under the direction of the Provincial Auditor, and the public accountants are required to report to the Provincial Auditor.

6.2 Primary Reporting Responsibilities. Under section 12 of the Act, the Provincial Auditor is required to report annually, through the Speaker, to the Legislative Assembly on the results of his examinations. Section 12(2), which summarizes the required content of the annual report, reads as follows:

"In his annual report in respect of each fiscal year, the Auditor shall report on,

- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
- (b) the examination of accounts of receipts and disbursements of public money;

- (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
- (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
- (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
- (f) such matters as, in the opinion of the Auditor, should be brought to the attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,
 - (i) accounts were not properly kept or public money was not fully accounted for,
 - (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
 - (iii) money was expended other than for the purpose for which it was appropriated,
 - (iv) money was expended without due regard to economy and efficiency, or
 - (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory."

For reference and identification purposes the above legislative provisions can be related to the content of this Report, or otherwise commented upon, as follows:

- 12(2)(a) : Refer to comments contained in this chapter of the Report. In carrying on the work of the Office, we received all the information and explanations required.
- 12(2)(b) : Refer to "Comments on Ministry Operations" (chapter 2), "Comments on Crown Agency Operations" (chapter 3) and "Comments on Internal Audit Operations" (chapter 4).
- 12(2)(c) : Refer to "Provincial Auditor's Opinion" (Exhibit 1) and "Public Accounts of the Province" (chapter 5).
- 12(2)(d) : No Special Warrants were issued during the 1979-80 fiscal year.

12(2)(e) : Refer to Exhibit 2.

6.3 Other Audit and Reporting Provisions. In addition to the primary audit and reporting responsibilities covered in the preceding two sections, The Audit Act, 1977, as amended, contains other provisions dealing with the rights and responsibilities of the Provincial Auditor in matters related to auditing and reporting. Sections of the Act dealing with these matters are summarized as follows:

- In addition to his annual report, section 12 of the Act permits the Provincial Auditor at any time to make a special report to the Speaker of the Assembly relating to any matter that in his opinion should not be deferred until the annual report. The Speaker is then required to lay such special report before the Assembly forthwith.
- In the case of any grant payments made by the Province or an agency of the Crown, section 13 of the Act provides that the Provincial Auditor may perform inspection audits thereof, and also may obtain a full accounting of the disposition of such grants from the recipients. Inspection audits are defined as examinations of accounting records.
- Under section 16 of the Act, the Provincial Auditor is required to examine into and report on any matter referred to him in respect of the Public Accounts by a resolution of the Standing Public Accounts Committee.
- Section 17 of the Act requires the Provincial Auditor to undertake such special assignments as may be required by either the Assembly, the Standing Public Accounts Committee (by resolution of the committee), or by a Minister, provided that such special assignments do not take precedence over his other duties. Further, if such an assignment is referred to the Provincial Auditor by a Minister, it can be declined if, in his opinion, it conflicts with his other duties.

Pursuant to section 17 of the Act, the Standing Public Accounts Committee passed a resolution at its June 12, 1980 meeting requiring the Provincial Auditor to review certain Provincial land assembly projects in detail. Our memoranda resulting from four of these reviews (Townsend, South Cayuga, Saltfleet and Edwardsburgh) formed the subject matter of Committee meetings during the three days from August 25 to 27. It is our understanding that hearings on this subject will resume during the fall session of the Legislature.

6.4 Organization and Personnel. The Office of the Provincial Auditor is divided into four branches, each of which is administered by a Director.

Public Accounts Audit Branch: audits the financial statements of the Province appearing in Volume 1 of the Public Accounts. Responsible for the preparation of material for the Auditor's annual Report and liaison with the Standing Public Accounts Committee. Also responsible for the conduct of special assignments and specific operational (program) reviews.

- Ministry Audit Branches (2): audit the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund. Also audit the accounts of certain agencies of the Crown.
- Crown Agency Audit Branch: audits boards, commissions and other agencies of the Crown. Where specified by legislation, directs audits of agencies performed by public accountants.

An organization chart of the Office is presented in Exhibit 4 to this Report.

At the date of this Report, the staff of the Office numbered eighty-one, thirty-seven of whom are professionally qualified accountants. Thirty employees are enrolled in various stages of courses leading to professional qualification through one of the following: The Certified General Accountants Association of Ontario, The Institute of Chartered Accountants of Ontario, or The Society of Management Accountants of Ontario.

6.5 Nature of Audit Activities. In order to express a professional opinion on the financial statements of the Province and numerous agencies of the Crown, audits are conducted in accordance with generally accepted auditing standards, as promulgated by the Canadian Institute of Chartered Accountants. All Ministry and Agency audits include a general review of the accounting procedures and systems of internal control, together with such tests of accounting records and supporting evidence as are considered necessary in the circumstances. Additionally, considerable emphasis is placed on determining whether there is full compliance with existing Statutes and Regulations.

The year-end audit activities of the Public Accounts Audit Branch, combined with the ongoing audits carried out by the two Ministry Audit Branches, enable the Provincial Auditor to express an opinion on the financial statements of the Province.

In addition to the preceding activities of a financial/compliance nature, section 12 of The Audit Act, 1977, as amended, requires the Provincial Auditor to report on any cases where he has observed that money was expended without due regard to economy and efficiency, as well as any adverse observations related to the procedures undertaken by Ministries and Crown Agencies to measure the effectiveness of their programs. With regard thereto, an integral part of all Ministry audits consists of a review of one or two programs/activities dealing with matters related to economy, efficiency and procedures to measure effectiveness. Similar reviews are undertaken, where feasible, as part of agency of the Crown audits. Additionally, the Office has two audit teams whose duties are essentially devoted to the performance of operational reviews of Ministry/Agency programs, together with special assignments.

In connection with Ministries/Agencies whose accounting records are maintained on electronic data processing (EDP) equipment, our audits include a re-

view of at least one application of the computerized system. This review includes the preparation of flow charts dealing with both manual and automated procedures, a summary showing input-processing-output of computer processes, completion of an internal control questionnaire for EDP processing, the identification of key control points, and related audit procedures to verify that the system is functioning properly and to identify any weaknesses.

As in previous years, the major revenue-producing areas of the Government were given concentrated audit coverage. In this regard, an audit team is located at the Ministry of Revenue to perform a continuous audit of taxation revenue. Such revenue amounted to over \$8.5 billion or 59.9 per cent of the Province's total revenue for the year. Similarly, our Office maintains a separate group of auditors whose main function is the review of claims on the Government of Canada which arise from contributory or cost-sharing agreements and programs.

A major undertaking of the Office during the past year has been the carrying out of an in-depth review of the internal audit operations within all Ministries and certain agencies of the Crown. The purpose of this review was to assess the efficiency and effectiveness of each internal audit branch, and to determine the extent to which the Office can rely on the work of internal audit.

This review was carried out under the direction of a senior partner from a national accounting firm, who was assisted by one member of his staff together with three professionals from this Office. Observations and recommendations resulting from this review form the basis for Chapter 4 of this Report.

6.6 Staff Training and Professional Development. The establishment and maintenance of a program of ongoing staff training is considered essential to the long-term development of the Office and its staff. Employees at the student level are required to actively pursue courses of study leading to a recognized accounting designation. Their training within the Office consists of on-the-job experience together with formal training under the direction of our staff training officer. Additionally, our professional staff participate in courses and seminars designed to enhance their auditing skills.

During the past year, seminars have been held dealing with subjects such as staff orientation (basic organization of the Government of Ontario and of the Office of the Provincial Auditor), communications (oral and report writing skills), audit level II (auditing objectives and methodology in the context of a complete Crown agency audit), basic accounting, statistical sampling and EDP audit methodology.

Similar courses, together with an expanded course for students relating to EDP control and audit guidelines, have been scheduled for the fall and winter months.

6.7 Meeting of Legislative Auditors. The eighth annual meeting of the Provincial Auditors and the Auditor General of Canada was held in Winnipeg, Manitoba from August 11-13, 1980, and was attended by two members of this Office. These meetings serve as a forum for the discussion of many mutual interests and concerns

and the sharing of technical and other information related to the work of the respective Offices.

As was the case last year, a meeting of the representatives of the Public Accounts Committees from the provinces and Canada was held at the same time in Winnipeg. This provided an opportunity for a combined meeting, on August 13, of the two groups at which an informative discussion of common concerns took place.

6.8 Examination of the Accounts of the Office of the Provincial Auditor. Section 28 of the Act reads as follows:

"A person or persons, not employed by the Crown or the Office of the Assembly, licensed under The Public Accountancy Act and appointed by the Board, shall examine the accounts relating to the disbursements of public money on behalf of the Office of the Auditor and shall report thereon to the Board and the Chairman of the Board shall cause the report to be laid before the Assembly if it is in session or, if not, at the next ensuing session."

The Board referred to in the preceding quotation is the Board of Internal Economy. The audit for the year ended March 31, 1979 was completed and the resulting unqualified report, dated July 9, 1979, was tabled in the Assembly on October 11, 1979.

Regarding the audit for the year ended March 31, 1980, the following report, dated August 20, 1980, has been deposited with the Clerk of the House and will be laid before the Assembly during the fall session:

"We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1980. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

"In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1980 in accordance with the basis of accounting described in Note 1 to the statement applied on a basis consistent with that of the preceding year."

By way of explanation, Note 1 to the statement reads as follows:

"The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the 'cash flow' principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended."

ACKNOWLEDGEMENTS

I appreciate the opportunity afforded me to serve the Legislature and the people of Ontario in the capacity as Provincial Auditor. In carrying out my duties and responsibilities, I am pleased to acknowledge the cooperation and assistance extended to myself and my colleagues by officials and staff of the various ministries and agencies of the Crown during the conduct of our audits.

Also, I wish to thank the members of my own staff for their strong support during the year. In addition, a special thank you to Messrs. Bradshaw and Willis for their assistance in conducting the government wide review of internal audit operations.

A handwritten signature in dark ink, appearing to read 'F. N. Scott', with a large, sweeping flourish at the end.

F. N. Scott, F.C.A.,
Provincial Auditor.

Toronto, September 30, 1980.

EXHIBITS

1. Province of Ontario, Audited Financial Statements, Year Ended March 31, 1980.
2. Management Board Orders — Amounts Authorized and Expended Thereunder during the Year Ended March 31, 1980.
3. Statutory Appropriations — Amounts Expended Thereunder during the Year Ended March 31, 1980.

Office of the Provincial Auditor:

4. Organization Chart
5. Ministry Audits and Special Reviews, Year Ended March 31, 1980.
6. Agency of the Crown and Crown Controlled Corporation Audits, Year Ended March 31, 1980.
7. Status of Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports.
8. Status of Recommendations Contained in the Reports of the Standing Public Accounts Committee to the Legislative Assembly.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Accounting Entity

In the operations of its financial affairs the Province employs the concept of a Consolidated Revenue Fund, unique to the parliamentary system of government. The financial transactions of government ministries are recorded and displayed as Consolidated Revenue Fund cash inflows and outflows. With respect to the financial operations of provincial crown corporations, agencies, boards and commissions, the financial statements of the Consolidated Revenue Fund reflect only the extent to which their operations have been financed from or have contributed to the Fund for the year.

The Accounting Basis

The Province uses the cash basis of accounting for its financial transactions, modified to allow an additional thirty days to pay for goods and services pertaining to the fiscal year just ended. In this regard, payments to employees for the pay period which overlaps the fiscal year end date are apportioned between the two years. Cash inflows, on the other hand, are closed at March 31 for cash received or in transit. The cash basis of accounting, modified as described, is used to disclose to the public the stewardship of the Government in regard to monies entrusted by appropriation, and raised through taxes and borrowing. Revenues and expenditures being unrelated in nature are matched only by timing of cash flow.

Classification of Transactions

The transactions of the Province are presented in summary form according to the four distinct areas of government activity through the Consolidated Revenue Fund.

"Budgetary Transactions" are operational activities which include the revenues raised through taxation, premiums, fees, licences and permits, payments from the federal government under shared-cost programs and income from investments. Expenditures on government programs include payments for goods and services, interest on the public debt, salaries, transfer payments to individuals, municipalities and institutions under various social programs, subsidies and grants, and the acquisition or creation of fixed assets.

"Non-Budgetary Transactions" are the lending, investment and trust administration functions which include, as distinct from expenditure, the government lending and investment activity in various crown corporations, agencies and municipalities. All of these loans and advances are repayable or represent equity holdings supported by the assets of the corporations. Also included in this category is the activity within deposit, trust and certain special purpose accounts. "Disbursements" is the term used to describe the lending and investment transactions of the government. "Receipts" consist of the payment of loans or recovery of investments. "Credits" is the term used to describe payments into deposit, trust and special purpose accounts. Payment made from these same accounts are termed "Charges".

"Debt Transactions" are the borrowing and repayment transactions which include obligations issued to both non-public and public sources of funds.

"Ontario Hydro Transactions" relate to amounts borrowed by the Province on behalf of Ontario Hydro. The Province issues debentures and advances the proceeds to Ontario Hydro in exchange for bonds with the same terms and conditions. Since these transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not a part of the Province's own budget plan, they are classified separately.

Assets and Liabilities

The assets and liabilities reported in the financial statements are financial claims which have been created by cash transactions. The assets are claims by the Consolidated Revenue Fund on other parties. The liabilities are claims by other parties on the Consolidated Revenue Fund.

Since expenditures on fixed assets do not represent financial claims on other parties and are not considered to differ from any other service to the public they are not reported as assets but are expensed as budgetary items in the year of acquisition.

Debentures, notes and treasury bills are recorded as liabilities at the face value of the debt instrument, and discount, premium and commission expenses are treated as current year budgetary transactions. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario of debt instruments issued by provincial agencies, boards and commissions and bank loans under certain government programs. Other significant legal commitments and liabilities are disclosed in notes to the financial statements.

The net debt of the Province is the excess of liabilities over recorded assets. It is also the accumulation of all budgetary deficits and surpluses since Confederation. The year-to-year change in net debt is the amount by which revenues exceed or are less than budgetary expenditures.

EXHIBIT 1

STATEMENT OF CONSOLIDATED REVENUE FUND

for the year ended March 31, 1980

(\$ millions)

	Budget 1980	Actual 1980	Actual 1979
Opening Balance			
Cash, temporary investments and marketable securities		1,020	548
Budgetary Transactions			
Revenue	13,446	14,214	12,322
Expenditure	15,105	15,346	13,913
Budgetary deficit	(1,659)	(1,132)	(1,591)
Non-Budgetary Transactions			
Loans, Advances and Investments			
Receipts	444	391	420
Disbursements	329	351	378
Net Decrease in Loans, Advances and Investments	115	40	42
Trust Administration Functions			
Credits	515	641	491
Charges	124	133	122
Net Increase in Trust Administra- tion Functions	391	508	369
Non-Budgetary Transactions (net)	506	548	411
Net Cash Requirements	(1,153)	(584)	(1,180)
Debt Transactions			
Proceeds of Loans	1,580	1,567	1,763
Retirements of Loans	285	434	111
Debt Transactions (net)	1,295	1,133	1,652
Ontario Hydro Transactions			
Proceeds of Debentures		300	750
Retirements of Debentures		86	83
		214	667
Related Advances, Interest and Recoveries		(214)	(667)
Ontario Hydro Transactions (net)			
Closing Balance			
Cash, temporary investments and marketable securities		1,569	1,020

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF BUDGETARY REVENUE

for the year ended March 31, 1980

(\$ millions)

	Budget 1980	Actual 1980	Actual 1979
Taxation			
Personal Income Tax	2,971	3,184	2,735
Retail Sales Tax (Note 10)	2,295	2,414	1,717
Corporations Tax	1,335	1,616	1,278
Gasoline Tax	607	610	539
Tobacco Tax	292	274	258
Motor Vehicle Fuel Tax	122	128	94
Mining Profits Tax	50	100	42
Land Transfer Tax	92	95	67
Succession Duty	35	47	63
Race Tracks Tax	49	51	46
Federal Government Income Tax Revenue			
Guarantees	5		44
Other	9	3	23
	<u>7,862</u>	<u>8,522</u>	<u>6,906</u>
Other Revenue			
Premiums—Ontario Health Insurance Plan	1,035	1,037	977
Profits from Crown Corporations and Boards			
Liquor Control Board of Ontario	412	400	356
Ontario Lottery Corporation	53	62	46
Ontario Energy Corporation (Note 3)	37	35	
Vehicle registration fees	310	310	301
Liquor Licence Board—fees	119	123	113
Other fees and licences	145	141	131
Fines and Penalties	69	68	62
Royalties	58	70	57
Utility Service Charges	48	56	55
Other	108	143	102
	<u>2,394</u>	<u>2,445</u>	<u>2,200</u>
Government of Canada			
Established Programs Financing			
Cash Contribution	1,834	1,817	1,605
Extended Health Care Services	210	208	188
Canada Assistance Plan	455	472	410
Economic Stimulation (Note 10)		2	289
Adult Occupational Training Agreement	100	93	105
Other	171	165	191
	<u>2,770</u>	<u>2,757</u>	<u>2,788</u>
Interest on Loans, Advances and Investments	<u>420</u>	<u>490</u>	<u>428</u>
Total Budgetary Revenue	<u>13,446</u>	<u>14,214</u>	<u>12,322</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF BUDGETARY EXPENDITURE

for the year ended March 31, 1980

(\$ millions)

	Budget 1980	Actual 1980	Actual 1979
Social Development Policy Field			
Health	4,183	4,269	3,955
Education (Note 12)	2,515	2,563	2,391
Colleges and Universities	1,430	1,446	1,371
Community and Social Services	1,318	1,342	1,228
Culture and Recreation	189	202	207
Social Development Policy	2	2	2
	<u>9,637</u>	<u>9,824</u>	<u>9,154</u>
Resources Development Policy Field			
Transportation and Communications	1,134	1,139	1,069
Natural Resources	261	280	246
Housing	227	196	167
Agriculture and Food	178	159	174
Environment	130	135	122
Industry and Tourism	65	68	60
Labour	40	41	34
Energy	15	11	10
Resources Development Policy	4	3	3
	<u>2,054</u>	<u>2,032</u>	<u>1,885</u>
Justice Policy Field			
Solicitor General	175	186	168
Attorney General	149	157	140
Correctional Services	131	137	130
Consumer and Commercial Relations	64	68	63
	<u>519</u>	<u>548</u>	<u>501</u>
General Government			
Intergovernmental Affairs (Note 12)	547	685	510
Government Services	272	329	253
Revenue	195	194	194
Treasury and Economics	223	150	21
Northern Affairs	141	137	125
Office of The Assembly	19	20	22
Other	22	19	18
	<u>1,419</u>	<u>1,534</u>	<u>1,143</u>
Public Debt—Interest	1,388	1,408	1,230
Contingency Fund (Note 11)	88		
Total Budgetary Expenditure	<u>15,105</u>	<u>15,346</u>	<u>13,913</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF NON-BUDGETARY TRANSACTIONS

for the year ended March 31, 1980

(\$ millions)

	Budget 1980	Actual 1980	Actual 1979
Loans, Advances and Investments			
Receipts			
Corporations, boards and commissions			
Ontario Energy Corporation	105	106	
Ontario Mortgage Corporation	100	45	144
The Ontario Education Capital Aid Corporation	72	73	67
The Ontario Universities Capital Aid Corporation	30	30	28
Development Corporations	18	22	20
Ontario Housing Corporation	13	5	4
Other	8	10	43
Water treatment and waste control facilities	35	53	52
Loans to municipalities	13	22	22
Nuclear power generating station—Pickering (Note 2)	25	5	20
Other loans and investments	25	20	20
	<u>444</u>	<u>391</u>	<u>420</u>
Disbursements			
Corporations, boards and commissions			
The Ontario Education Capital Aid Corporation	69	69	71
Development Corporations	37	39	40
The Crop Insurance Commission of Ontario		38	
Ontario Land Corporation	19	19	15
Ontario Housing Corporation	10	4	29
Ontario Mortgage Corporation	4		15
Other	8	2	21
Water treatment and waste control facilities	153	139	147
Loans to municipalities	27	40	39
Other loans and investments	2	1	1
	<u>329</u>	<u>351</u>	<u>378</u>
Net Decrease in Loans, Advances and Investments	<u>115</u>	<u>40</u>	<u>42</u>
Trust Administration Functions			
Credits			
Pension funds	330	333	302
Deposit, trust and reserve accounts	157	154	128
The Province of Ontario Savings Office			
Deposits—net increase	28	154	61
	<u>515</u>	<u>641</u>	<u>491</u>
Charges			
Pension funds	80	84	71
Deposit, trust and reserve accounts	44	49	51
	<u>124</u>	<u>133</u>	<u>122</u>
Net Increase in Trust Administration Functions	<u>391</u>	<u>508</u>	<u>369</u>
Total Non-Budgetary Transactions	<u>506</u>	<u>548</u>	<u>411</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF DEBT TRANSACTIONS

for the year ended March 31, 1980

(\$ millions)

	Budget 1980	Actual 1980	Actual 1979
Proceeds of Loans			
Non-public			
Canada Pension Plan Investment Fund	960	988	916
Teachers' Superannuation Fund	550	537	489
Ontario Municipal Employees Retirement Fund			100
Canada Mortgage and Housing Corporation— waste control loans	70	42	63
	<u>1,580</u>	<u>1,567</u>	<u>1,568</u>
Public			
Treasury bills (net)			195
Total Proceeds of Loans	<u>1,580</u>	<u>1,567</u>	<u>1,763</u>
Retirements of Loans			
Non-public			
Canada Mortgage and Housing Corporation— waste control loans	19	16	14
Government of Canada, Municipal Development Loan Board	4	4	4
Government of Canada, Federal-Provincial Employment Incentive Programs	3	3	3
	<u>26</u>	<u>23</u>	<u>21</u>
Public			
For general purposes	64	86	90
Treasury bills (net)	195	325	
	<u>259</u>	<u>411</u>	<u>90</u>
Total Retirements of Loans	<u>285</u>	<u>434</u>	<u>111</u>
Debt Transactions (net)	<u>1,295</u>	<u>1,133</u>	<u>1,652</u>

STATEMENT OF ONTARIO HYDRO TRANSACTIONS

for the year ended March 31, 1980

(\$ millions)

	1980	1979
Proceeds of debentures (public)	300	750
Retirements of debentures (public)	86	83
Net increase in debentures for Ontario Hydro purposes	<u>214</u>	<u>667</u>
Related advances, interest and recoveries		
Loans to Ontario Hydro	300	750
Interest on debentures	316	244
Recovery of interest and debenture retirements	(402)	(327)
Related advances, interest and recoveries (net)	<u>214</u>	<u>667</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF ASSETS AND LIABILITIES

as at March 31, 1980

(\$ millions)

	1980	1979
Assets		
Cash, temporary investments and marketable securities (Note 1)	1,569	1,020
Advances to Ontario Hydro (Note 2)	3,782	3,573
Advances and investments—other corporations, boards and commissions (Note 3)	4,220	4,340
Investments in water treatment and waste control facilities (at cost less recoveries) (Note 4)	1,062	975
Loans to municipalities	360	342
Other loans and investments (Note 5)	230	250
Total recorded assets	11,223	10,500
Net debt	10,701	9,569
	<u>21,924</u>	<u>20,069</u>
Liabilities		
Deposits with The Province of Ontario Savings Office	560	406
Pension Funds (Note 6)	1,816	1,567
Deposit, trust and reserve accounts	504	399
Advances payable	66	91
Treasury bills		325
Debentures and notes (Note 7)	18,978	17,281
	<u>21,924</u>	<u>20,069</u>
Contingent liabilities (Note 8)	7,593	6,734

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

Approved on behalf of the Ministry of Treasury and Economics.

.. RENDALL DICK, Deputy Treasurer of Ontario and Deputy Minister of Economics.

t. McINTYRE, F.C.A., Assistant Deputy Minister, Office of the Treasury.

EXHIBIT 1

NOTES TO THE FINANCIAL STATEMENTS
(all figures in millions of dollars)

1. Cash, Temporary Investments and Marketable Securities

Temporary investments, which include obligations of Canadian chartered banks and other short-term investments, are recorded at cost. Marketable securities, which include debentures and bonds issued by the Province and Ontario Hydro, are recorded at cost which was \$57 million at March 31, 1980 (1979 \$51 million). The market value of these securities was \$45 million at March 31, 1980 (1979 \$48 million).

2. Advances to Ontario Hydro

	1980	1979
Secured by bonds	\$3,782	\$3,568
Nuclear power generating station—Pickering		5
	<u>\$3,782</u>	<u>\$3,573</u>

The Province, in addition to guaranteeing Ontario Hydro debt obligations, has issued U.S. dollar debentures on behalf of Ontario Hydro. The proceeds have been advanced to Ontario Hydro in exchange for U.S. dollar bonds with the same terms and conditions as the debentures of the Province.

The Province, by agreement with Ontario Hydro and Atomic Energy of Canada Limited, contributed \$100 million to the capital cost of the Pickering nuclear power generating plant and under the terms of a thirty year agreement receives payments based on the net operational advantages of the plant. These payments have amounted to \$120 million, of which \$100 million has been applied to retire the advance and \$20 million is included in other budgetary revenue.

3. Advances and Investments—Other Corporations, Boards and Commissions

	1980	1979
The Ontario Education Capital Aid Corporation	\$1,274	\$1,278
The Ontario Universities Capital Aid Corporation	1,174	1,204
Ontario Mortgage Corporation	585	630
Ontario Land Corporation	506	492
Ontario Housing Corporation	204	205
Development Corporations	215	198
Ontario Energy Corporation	16	121
Other	246	212
	<u>\$4,220</u>	<u>\$4,340</u>

The Ontario Education Capital Aid Corporation has received advances from the Province to purchase bonds or debentures issued by school boards for capital expansion programs. The securities held by the Corporation are the obligations of the individual school boards. However, under current support arrangements for local school boards, approved debt charges are subject to Provincial grants averaging 75%. Effective April 1, 1980 the loan program has been replaced by grants to school boards from the Ministry of Education. The Corporation will continue to administer the amortization of the outstanding loans.

The Ontario Universities Capital Aid Corporation, under a program which was discontinued in 1978, received advances from the Province to purchase bonds or debentures issued by provincial universities, colleges, the Art Gallery of Ontario, the Royal Ontario Museum and municipalities on behalf of public libraries, for approved capital construction projects. The securities held by the Corporation are the obligations of the issuing institutions. However, these institutions received budgetary grants in 1980 of \$115 million (1979 \$116 million) from the Province to cover the full amount of principal and interest due to the Corporation.

The Ontario Mortgage Corporation has used advances from the Province to provide primary and secondary mortgage financing for eligible persons. The Province paid subsidies amounting to \$2.3 million in 1980 (\$2.5 million in 1979) to the Corporation for certain loans made at interest rates lower than cost. No new loan commitments were made in the current year and the Corporation sold \$9.6 million (1979 \$109 million) of its mortgage portfolio.

The Ontario Land Corporation was established in 1974 to assemble land for new communities and industrial parks. In 1978 the Corporation's objects were broadened to include land development. In this connection, certain assets of the Ontario Housing Corporation including land leases, mortgages, mortgage guarantees, agreements for sale and lands scheduled for residential, industrial and commercial development, were transferred along with related liabilities to the Ontario Land Corporation with effect from January 1, 1979. At March 31, 1979 the Corporation's liability to the Province was increased by \$147 million. The Province charges no interest on advances being used to finance land holdings. At March 31, 1980 these advances were \$400 million (1979 \$397 million).

Ontario Housing Corporation plans, constructs and manages residential housing projects. Financing is provided by the Province and Canada Mortgage and Housing Corporation, and municipalities. The Province's share of the subsidy for the calendar year 1979 was \$102 million (1978 \$91 million). As described above, certain assets and liabilities were transferred to the Ontario Land Corporation with effect from January 1, 1979. At March 31, 1979 the Corporation's liability to the Province was reduced by \$147 million.

Ontario Development Corporation and the associated Eastern Ontario Development Corporation and Northern Ontario Development Corporation provide loans and arrange for provincial guarantees of bank loans to qualified enterprises. The Province has purchased an equity of \$7 million and has advanced all funding for the lending programs of the Corporations. Through its budgetary expenditures, the Province also transfers to the Corporations an amount to defray the costs of all administrative expenses, loans made at low interest rates, certain loan forgiveness, honouring guarantees, and writing off loans and losses. In 1980 these transfers amounted to \$24.4 million (1979 \$20.8 million).

Ontario Energy Corporation was established in 1975 with a \$100 million equity investment by the Province to develop energy sources for Ontario through investment in energy exploration, development and production. The Corporation sold its equity interest in Syncrude Canada Ltd. in 1978. As a result, in the current year, the Province received a payment of \$142 million of which \$35 million was a dividend. The balance was used to reduce the advances and to repurchase some of the Corporation's share capital from the Province. At March 31, 1980 the Province's equity investment was \$15 million.

4. Investments in Water Treatment and Waste Control Facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreement with the municipalities. Agreements covering \$967 million of the investment are for provincially-owned projects which are subject to service rate billings. The proceeds from billings are used to amortize the investment over periods up to forty years, to pay for operating costs and to provide a return on the investment. Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in such funds (included in deposit, trust and reserve accounts) was \$41 million at March 31, 1980 (1979 \$37 million).

5. Other Loans and Investments

Included in other loans and investments are Ministry of Health capital construction loans to public hospitals amounting to \$217 million (1979 \$236 million). During the 1980 fiscal year, the Province made grants of \$19.3 million (1979 \$19.1 million) to assist public hospitals in meeting principal and interest payments. No new loans have been made since 1978 when the Ministry changed its public hospitals capital financial support program from loans to grants.

5. Pension Funds

	1980	1979
Public Service Superannuation Fund	\$1,800	\$1,551
Legislative Assembly Retirement Allowances Account	16	16
	<u>\$1,816</u>	<u>\$1,567</u>

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less pension payments for both the Public Service Superannuation Fund and Legislative Assembly Retirement Allowances Account. The amounts recorded by the Province are essentially the sole assets of these pension plans.

Based on the latest actuarial report as at December 31, 1976, the Public Service Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of \$83 million, upon which an interest contribution of \$6 million is required to be credited annually in accordance with The Pension Benefits Act.
2. Residual unfunded liabilities of \$422 million which are required to be amortized by annual payments of \$49 million until January 1, 1990 and \$32 million on January 1, 1991 and 1992.

As at March 31, 1980, the Province had made all scheduled payments.

An actuarial review of the Legislative Assembly Retirement Allowances Account as at March 31, 1980 revealed a surplus of \$43 thousand.

Teacher's Superannuation Fund:

Through the budgetary expenditures of the Ministry of Education the Province makes annual contributions to the Teachers' Superannuation Fund (which is administered by the Teachers' Superannuation Commission) equal in amount to contributions by members. Further, the Province is committed to paying any deficiency in the fund.

Based on the latest actuarial report as at December 31, 1978, the Teachers' Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of \$328 million upon which an interest contribution of \$23 million is required to be credited annually in accordance with The Pension Benefits Act.
2. Residual unfunded liabilities of \$768 million which are required to be amortized by annual payments of \$97 million until December 31, 1989 and \$94 million on December 31, 1990.

As at March 31, 1980 the Province had made all scheduled payments.

7. Debentures and Notes

Years of Maturity March 31	1980 Payable in				1979
	Canadian Dollars	United States Dollars	Deutsche Marks	Total	Total
1980	\$	\$	\$	\$	\$ 100
1981	133		7	140	52
1982	62	40	7	109	108
1983	122	125	7	254	254
1984	106	82	7	195	203
1985	104		2	106	
1-5 years	527	247	30	804	717
6-10 years	2,205	99	10	2,314	1,973
11-15 years	3,787	44		3,831	3,423
16-20 years	6,931	429		7,360	6,303
21-25 years	1,439	866		2,305	2,448
26-30 years	161	2,116		2,277	2,355
31-35 years	51			51	37
36-40 years	36			36	25
	<u>\$15,137</u>	<u>\$ 3,801</u>	<u>\$ 40</u>	<u>\$18,978</u>	<u>\$17,281</u>

The U.S. dollar debenture liability is recorded at par with the Canadian dollar and with the exception of \$18.4 million, has been incurred on behalf of Ontario Hydro. As ex-

plained in note 2, the Province holds U.S. dollar bonds of Ontario Hydro having the same terms and conditions as the debentures of the Province.

The Province has borrowings of 139 million Deutsche Marks recorded at \$40 million, the Canadian dollar equivalent at the time of issue. At March 31, 1980 the Canadian dollar equivalent was \$85 million.

8. Contingent Liabilities

The Province is guarantor of certain debt obligations as follows:

	1980	1979
Debentures, bonds and notes		
Ontario Hydro	\$7,502	\$6,634
Ontario Provincial crown agencies	10	10
	<u>7,512</u>	<u>6,644</u>
Bank loans guaranteed		
Provincial crown agencies	8	9
Corporations and individuals through various government programs	73	81
	<u>81</u>	<u>90</u>
	<u>\$7,593</u>	<u>\$6,734</u>

9. Long-Term Leases

The Province has long-term lease commitments for accommodation amounting to \$153 million to 1985 and an additional \$129 million for years beyond 1985. The lease payments made in 1980 amounted to \$45 million.

10. Economic Stimulation

On April 10, 1978, the government announced a reduction in retail sales tax rates of three percentage points for a period of six months to stimulate consumption. The Government of Canada agreed to share two thirds of the cost of the tax reduction.

1. Budget Figures

The comparative budget figures in the financial statements were taken from the 1979 Ontario Budget which was presented by the Treasurer of Ontario to the Legislative Assembly on April 10, 1979.

The Contingency Fund budget figure in the Statement of Budgetary Expenditure is a provision for the cost of salary and employee benefit revisions likely to be approved in the fiscal year. These revisions, when paid however, are charged to the affected appropriations of each ministry.

2. Accelerated Local Government Grants

In March 1980, the government tabled Supplementary Estimates to permit earlier payment of grants to school boards and municipal governments. The budgetary expenditures for the Ministry of Education and the Ministry of Intergovernmental Affairs were increased by \$82 million and \$143 million respectively for payments which otherwise would have been made in the 1980-81 fiscal year.

3. Change in Accounting Treatment and Comparative Figures

In the current year, the Province discontinued its practice of holding Government of Canada revenue accounts open for a period of three weeks after the March 31 fiscal year end. Government of Canada revenues are now closed on a basis consistent with all other revenues which is cash received or in transit at March 31. As a result of this change, budgetary revenue is \$50 million lower and the budgetary deficit and net cash requirements are \$50 million higher than if the former practice was continued.

In addition, transactions relating to amounts borrowed by the Province on behalf of Ontario Hydro have been reclassified as Ontario Hydro transactions. As a result of this

reclassification, both budgetary revenue and expenditure have decreased by \$316 million, while non-budgetary and debt transactions have decreased by \$214 million.

With the exception of the change to Government of Canada revenue, the 1979 comparative figures have been reclassified where necessary to conform with the 1980 financial statement presentation.

EXHIBIT 1

PROVINCIAL AUDITOR'S OPINION

I have examined the statement of assets and liabilities of the Province of Ontario as at March 31, 1980 and the statements of consolidated revenue fund, budgetary revenue, budgetary expenditure, non-budgetary transactions, debt transactions and Ontario Hydro transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Province as at March 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies set out in the Summary of Significant Accounting Policies on page 1-2 of Volume 1 of the Public Accounts. Further in my opinion, except for the change in accounting for the cut-off of year end Government of Canada revenue as referred to in Note 13 to the financial statements, such stated accounting policies have been applied on a basis consistent with that of the preceding year.

In accordance with section 12 of The Audit Act, 1977, as amended, a report will be made to the Speaker of the Legislative Assembly.

A handwritten signature in dark ink, appearing to read 'F. N. Scott', is written in a cursive style.

F. N. Scott, F.C.A.,
Provincial Auditor.

Toronto, September 30, 1980.

MANAGEMENT BOARD ORDERS

AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER
DURING THE YEAR ENDED MARCH 31, 1980

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Office of The Premier			
Mar. 18, 1980	Office of The Premier Program		
	Office of The Premier	87,000	65,175
Management Board of Cabinet			
Apr. 15, 1980	Ministry Administration Program		
	Other Administration	95,000	75,533
Apr. 15, 1980	Employee Relations Program		
	Staff Relations	12,000	4,193
Apr. 15, 1980	Government Personnel Services Program		
	Staff Development Centre	40,000	23,143
Apr. 15, 1980	Personnel Advertising Services	37,000	27,622
		184,000	130,491
Ministry of Government Services			
Apr. 1, 1980	Ministry Administration Program		
	Financial Services	79,100	42,211
Apr. 1, 1980	Information Services	6,500	—
Apr. 1, 1980	Legal Services	26,700	—
Mar. 11, 1980	Systems Development Services	111,400	82,245
Feb. 12, 1980	Ministers Without Portfolio	25,600	25,323
Apr. 1, 1980	Provision of Accommodation Program		
	Capital Construction	1,912,900	1,861,002
Apr. 1, 1980	Leasing	446,900	420,836
Feb. 26, 1980	Lease-Purchase	600,000	600,000
Apr. 1, 1980	Lease-Purchase	7,200	4,168
Apr. 1, 1980	Accommodation Alterations	408,200	401,504
Apr. 1, 1980	Upkeep of Accommodation Program		
	Program Administration	375,500	327,447
Apr. 1, 1980	Repairs, Operation and Maintenance	620,700	613,204
Apr. 1, 1980	Supply and Services Program		
	Program Administration	38,600	—
Apr. 1, 1980	Supply Administration	45,000	11,563
Apr. 1, 1980	Printing and Stationery	90,000	54,191
Apr. 1, 1980	Government Mail Services	58,000	9,860
Apr. 1, 1980	Records Centre	21,000	12,139
Apr. 1, 1980	Protocol Services	8,500	7,121
Apr. 1, 1980	Employee Health Services	94,300	62,679
Feb. 18, 1980	Employee Advisory Services	40,900	26,940
		5,017,000	4,562,433

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Intergovernmental Affairs			
	Ministry Administration Program		
Mar. 25, 1980	Main Office	167,900	136,530
Apr. 15, 1980	Legal Services	10,000	4,488
	Intergovernmental Affairs Program		
Dec. 4, 1979	Intergovernmental Affairs	341,575	341,575
Apr. 1, 1980	Intergovernmental Affairs	80,200	50,720
	Local Government Affairs Program		
Apr. 15, 1980	Local Government	2,225,000	1,818,506
		2,824,675	2,351,819
Ministry of Northern Affairs			
	Regional Priorities and Development Program		
Apr. 15, 1980	Northern Roads	875,000	811,358
Ministry of Revenue			
	Ministry Administration Program		
Mar. 25, 1980	Legal Services	60,000	55,525
Mar. 25, 1980	Financial Services	99,000	86,576
Mar. 25, 1980	Information Services	3,000	—
Mar. 25, 1980	Systems Development Services	106,000	42,709
	Administration of Taxes Program		
Mar. 25, 1980	Main Office	31,200	16,006
Mar. 25, 1980	Revenue Research	9,200	—
Mar. 25, 1980	Corporations Tax and Other Taxes	341,800	284,997
Mar. 4, 1980	Gasoline Tax and Other Taxes	224,000	224,000
Mar. 25, 1980	Gasoline Tax and Other Taxes	182,300	179,214
Mar. 25, 1980	Succession Duty and Other Taxes	86,800	—
Mar. 25, 1980	Retail Sales Tax and Other Taxes	759,300	757,659
	Guaranteed Income and Tax Credit Program		
Mar. 4, 1980	Administration	444,000	—
	Municipal Assessment Program		
Mar. 25, 1980	Administration	143,800	141,054
Mar. 25, 1980	Assessment Standards	75,100	50,412
Mar. 25, 1980	Assessment Field Operations	4,605,000	4,605,000
Apr. 15, 1980	Assessment Field Operations	200,000	199,202
		7,370,500	6,642,354
Ministry of Treasury and Economics			
	Ministry Administration Program		
Apr. 1, 1980	Supply and Office Services	38,000	—
Apr. 1, 1980	Information Services	7,000	—
Apr. 1, 1980	Legal Services	8,000	177
	Finance Program		
Apr. 1, 1980	Treasury	10,000	—
		63,000	177

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of The Attorney General			
	Law Officer of the Crown Program		
Mar. 11, 1980	Attorney General	35,000	24,345
Feb. 5, 1980	Royal Commissions	375,000	298,906
	Administrative Services Program		
Mar. 11, 1980	Financial Services	105,000	103,818
	Guardian and Trustee Services Program		
Mar. 11, 1980	Official Guardian	115,000	115,000
Apr. 1, 1980	Official Guardian	25,000	24,972
Mar. 11, 1980	Public Trustee	239,000	208,632
Mar. 11, 1980	Supreme Court Accountant	27,000	20,035
	Crown Legal Services Program		
Mar. 11, 1980	Criminal Law Division	850,000	819,919
Mar. 11, 1980	Civil Law Division	105,000	105,000
Apr. 1, 1980	Civil Law Division	5,000	4,738
	Courts Administration Program		
Mar. 11, 1980	Program Administration	85,000	78,025
Mar. 11, 1980	Supreme Court of Ontario	570,000	559,668
Mar. 11, 1980	County and District Courts	2,364,000	2,364,000
Apr. 1, 1980	County and District Courts	256,000	255,959
Mar. 11, 1980	Small Claims Courts	257,000	241,957
Mar. 11, 1980	Provincial Courts	3,474,000	3,474,000
Apr. 1, 1980	Provincial Courts	34,000	33,957
	Administrative Tribunals Program		
Mar. 11, 1980	Assessment Review Court	113,000	98,192
Mar. 11, 1980	Criminal Injuries Compensation Board ..	20,000	12,317
Mar. 11, 1980	Ontario Municipal Board	175,000	171,567
		9,229,000	9,015,007

Ministry of Consumer and Commercial Relations

	Ministry Administration Program		
Mar. 25, 1980	Main Office	55,000	52,035
Mar. 25, 1980	Personnel Services	31,000	22,266
Mar. 25, 1980	Information Services	63,600	63,548
Mar. 25, 1980	Audit Services	24,500	19,968
	Commercial Standards Program		
Mar. 25, 1980	Securities	52,700	51,035
Jan. 29, 1980	Pension Plans	118,500	117,739
Mar. 25, 1980	Financial Institutions	284,000	266,558
Mar. 25, 1980	Companies	103,800	59,495
	Technical Standards Program		
Mar. 25, 1980	Pressure Vessels Safety	70,000	69,022
Mar. 25, 1980	Elevating Devices	115,000	93,998
Mar. 25, 1980	Fuels Safety	70,000	57,399
Mar. 25, 1980	Upholstered and Stuffed Articles	18,500	17,739
	Public Entertainment Standards Program		
Mar. 25, 1980	Regulation of Horse Racing	48,400	38,240
Jan. 29, 1980	Lotteries	66,290	55,833
	Property Rights Program		
Mar. 25, 1980	Program Administration	79,400	75,008
Mar. 25, 1980	Regional Property Registration	1,377,500	1,336,214
Mar. 25, 1980	Legal and Survey Standards	82,000	72,293
Mar. 25, 1980	Personal Property Registration	138,000	136,392

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
	Ministry of Consumer and Commercial Relations (cont'd)		
Mar. 25, 1980	Registrar General Program		
	Registrar General	52,900	50,874
Mar. 25, 1980	Liquor Licence Program		
	Liquor Licence Appeal Tribunal	5,000	—
Mar. 25, 1980	Rent Review Program		
	Administration	320,000	319,894
Mar. 25, 1980	Operations	612,000	611,996
		3,788,090	3,587,546
	Ministry of Correctional Services		
	Ministry Administration Program		
Mar. 11, 1980	Main Office	152,900	100,689
Mar. 11, 1980	Financial Services	153,800	149,275
Mar. 11, 1980	Supply and Office Services	23,200	—
Mar. 11, 1980	Audit Services	5,600	680
Mar. 25, 1980	Institutional Program		
	Care, Treatment and Training	6,492,200	4,769,683
Mar. 11, 1980	Community Program		
	Program Administration	17,100	16,669
Mar. 11, 1980	Probation and Parole Services	1,355,600	1,149,773
Mar. 11, 1980	Community Resource Centre Services	56,000	55,914
Mar. 11, 1980	Community Program Development	14,400	—
Mar. 11, 1980	Community Program Staff Training	64,600	41,081
		8,335,400	6,283,764
	Ministry of The Solicitor General		
	Ministry Administration Program		
Mar. 4, 1980	Main Office	150,000	91,587
Mar. 4, 1980	Financial Services	75,000	67,658
Mar. 4, 1980	Personnel Services	21,000	11,159
Mar. 4, 1980	Audit Services	5,000	—
Mar. 4, 1980	Public Safety Program		
	Program Management	168,000	156,921
Mar. 4, 1980	Centre of Forensic Sciences	80,000	80,000
Apr. 1, 1980	Centre of Forensic Sciences	75,000	72,760
Mar. 4, 1980	Fire Safety Services	195,000	188,943
Mar. 4, 1980	Supervision of Police Forces Program		
	Ontario Police Arbitration Commission ..	5,000	—
Mar. 4, 1980	Management and Support Services Program		
	Office of the Commissioner	30,000	23,864
Mar. 4, 1980	Staff Inspection	150,000	131,952
Mar. 4, 1980	Staff Development	301,000	300,975
Mar. 4, 1980	Transport	650,000	650,000
Apr. 15, 1980	Transport	480,000	456,013
Mar. 4, 1980	Quartermaster Stores	91,000	90,542
Mar. 4, 1980	Ontario Provincial Police — Operations Program		
	Special Services	1,075,000	1,075,000
Apr. 1, 1980	Special Services	25,000	12,219

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of The Solicitor General (cont'd)			
Mar. 4, 1980	Law Enforcement	5,375,000	5,375,000
Apr. 1, 1980	Law Enforcement	4,350,000	3,802,103
Mar. 4, 1980	Registration	50,000	36,132
Mar. 4, 1980	Community Services	5,000	3,217
		13,356,000	12,626,045
Resources Development Policy			
	Resources Development Policy Program		
	Royal Commission on Electric Power		
Apr. 22, 1980	Planning	12,500	11,215
Ministry of Agriculture and Food			
	Ministry Administration Program		
Mar. 25, 1980	Main Office	50,000	10,053
Mar. 25, 1980	Financial Services	27,200	14,628
Mar. 25, 1980	Supply and Office Services	23,400	—
Mar. 25, 1980	Information Services	236,400	213,217
Mar. 25, 1980	Analysis and Planning	65,300	53,488
Mar. 25, 1980	Legal Services	12,700	9,608
Mar. 25, 1980	Audit Services	12,500	7,616
	Agricultural Production Program		
Mar. 25, 1980	Advisory Services	1,461,400	780,142
	Agricultural Marketing Program		
Mar. 25, 1980	Administration	16,200	11,440
Feb. 18, 1980	Marketing	720,000	676,795
Mar. 25, 1980	Quality Control of Agricultural Products	794,500	649,192
	Agricultural Education and Research Program		
Mar. 25, 1980	Administration	11,100	9,043
Mar. 25, 1980	Education	33,500	32,572
Mar. 25, 1980	Research	362,300	214,793
Apr. 15, 1980	Research	10,000	—
Mar. 25, 1980	Ontario Agricultural Museum	37,500	32,660
		3,874,000	2,715,247
Ministry of Energy			
	Ministry Administration Program		
Apr. 15, 1980	Main Office	72,500	49,625
	Conventional Energy Program		
Apr. 15, 1980	Electric Power	102,900	87,698
	Energy Conservation Program		
Apr. 15, 1980	Program Development	71,600	24,834
	Regulatory Affairs Program		
Apr. 15, 1980	Program Administration	101,700	24,858
		348,700	187,015

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of The Environment			
Ministry Administration Program			
Apr. 15, 1980	Main Office	111,000	91,544
Apr. 15, 1980	Financial Services	65,000	36,149
Apr. 15, 1980	Supply and Office Services	220,000	212,135
Mar. 11, 1980	Personnel Services	264,000	233,694
Apr. 15, 1980	Information Services	111,000	108,873
Mar. 11, 1980	Analysis and Planning	115,000	103,688
Apr. 15, 1980	Legal Services	39,000	36,859
Environmental Assessment and Planning Program			
Mar. 11, 1980	Program Administration	83,000	69,346
Apr. 15, 1980	Air Resources	452,000	447,066
Apr. 15, 1980	Water Resources	359,000	177,915
Apr. 15, 1980	Environmental Approvals and Land Use	14,000	—
Environmental Control Program			
Apr. 15, 1980	Program Administration	164,000	163,846
Apr. 15, 1980	Industrial Abatement	232,000	71,956
Apr. 15, 1980	Municipal and Private Abatement	284,000	172,475
Apr. 15, 1980	Laboratory and Technical Support	624,000	600,418
		3,137,000	2,525,964
Ministry of Housing			
Home Buyers Grant Program			
Mar. 18, 1980	Home Buyers Grant	5,000	2,750
Ministry of Industry and Tourism			
Ministry Administration Program			
Mar. 11, 1980	Main Office	118,000	118,000
Mar. 25, 1980	Main Office	124,000	124,000
Apr. 15, 1980	Main Office	27,000	24,525
Mar. 11, 1980	Financial Services	20,000	20,000
Mar. 25, 1980	Financial Services	4,000	3,837
Mar. 11, 1980	Supply and Office Services	4,000	4,000
Mar. 25, 1980	Supply and Office Services	31,000	30,169
Mar. 25, 1980	Personnel Services	4,000	850
Mar. 11, 1980	Information Services	80,000	80,000
Mar. 25, 1980	Information Services	47,000	47,000
Apr. 15, 1980	Information Services	15,000	14,380
Policy and Priorities Program			
Mar. 25, 1980	Program Administration	14,000	8,420
Mar. 11, 1980	Industry Sector Policy	65,000	65,000
Mar. 25, 1980	Industry Sector Policy	141,000	141,000
Apr. 15, 1980	Industry Sector Policy	9,000	4,753
Industry Development Program			
Mar. 11, 1980	Trade Development	1,010,000	1,010,000
Mar. 25, 1980	Trade Development	250,000	247,187
Mar. 11, 1980	Operations	363,000	363,000
Mar. 25, 1980	Operations	435,000	435,000
Apr. 15, 1980	Operations	366,000	361,731
Tourism Development Program			
Mar. 11, 1980	Program Administration	6,000	6,000

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Industry and Tourism (cont'd)			
Mar. 25, 1980	Program Administration	14,000	14,000
Apr. 15, 1980	Program Administration	12,000	6,363
Apr. 15, 1980	Tourism Marketing Development	441,000	430,530
Mar. 25, 1980	Resort Development	4,000	—
Ontario Place Corporation Program			
Mar. 25, 1980	Ontario Place Development	300,000	300,000
Industrial Incentives and Development Program			
Apr. 15, 1980	Ontario Development Corporation	1,591,000	1,588,586
Apr. 15, 1980	Eastern Ontario Development Corporation	2,360,000	2,299,474
		7,855,000	7,747,805
Ministry of Labour			
Ministry Administration Program			
Mar. 25, 1980	Main Office	119,900	56,481
Mar. 25, 1980	Financial Services	33,900	32,262
Feb. 26, 1980	Supply and Office Services	317,700	317,700
Mar. 25, 1980	Supply and Office Services	15,500	2,439
Mar. 25, 1980	Personnel Services	29,200	4,317
Mar. 25, 1980	Information Services	46,400	43,977
Mar. 25, 1980	Analysis and Planning	134,300	113,483
Feb. 26, 1980	Audit Services	11,900	7,854
Mar. 25, 1980	Systems Development Services	11,900	—
Industrial Relations Program			
Labour Management Arbitration			
Feb. 12, 1980	Commission	123,500	123,500
Labour Management Arbitration			
Apr. 15, 1980	Commission	20,000	3,481
Women's Program			
Mar. 25, 1980	Women's Bureau	62,000	59,159
Occupational Health and Safety Program			
Mar. 25, 1980	Construction Health and Safety	278,800	253,461
Mar. 25, 1980	Industrial Health and Safety	274,800	170,569
Mar. 25, 1980	Occupational Health	216,800	—
Employment Standards Program			
Mar. 25, 1980	Employment Standards	490,000	456,809
Ontario Manpower Co-ordinating Committee Program			
Feb. 18, 1980	Ontario Manpower Co-ordinating Committee	157,200	72,073
Human Rights Commission Program			
Feb. 26, 1980	Human Rights Commission	66,000	66,000
Mar. 25, 1980	Human Rights Commission	138,100	77,681
Labour Relations Board Program			
Mar. 25, 1980	Labour Relations Board	260,700	260,700
Apr. 15, 1980	Labour Relations Board	30,000	23,934
		2,838,600	2,145,880

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Natural Resources			
Ministry Administration Program			
Apr. 1, 1980	Main Office	160,200	82,170
Mar. 11, 1980	Supply and Office Services	372,000	344,586
Apr. 15, 1980	Legal Services	15,000	13,128
Mar. 11, 1980	Field Administration	1,430,000	1,417,730
Land Management Program			
Mar. 11, 1980	Water Control and Engineering	465,000	465,000
Apr. 15, 1980	Water Control and Engineering	700,000	673,551
Jan. 22, 1980	Air Service	722,900	704,992
Mar. 11, 1980	Resource Access	144,500	113,505
Mar. 25, 1980	Land and Water Classification	242,200	186,995
	Land, Water and Mineral Title		
Mar. 11, 1980	Administration	1,410,000	1,363,147
Apr. 15, 1980	Conservation Authorities	244,700	170,195
	Basic Mapping and Geographic		
Apr. 1, 1980	Referencing	201,500	130,765
Outdoor Recreation Program			
Mar. 11, 1980	Recreational Areas	1,990,000	1,979,369
Mar. 11, 1980	Fish and Wildlife	3,305,000	3,088,500
Mar. 25, 1980	St. Lawrence Parks Commission	197,400	139,672
Resource Products Program			
Apr. 1, 1980	Mineral Management	90,000	87,084
Mar. 11, 1980	Forest Management	2,975,000	2,975,000
Apr. 15, 1980	Forest Management	600,000	563,915
Resource Experience Program			
Apr. 1, 1980	Leslie M. Frost Natural Resources Centre	50,000	30,942
		15,315,400	14,530,246
Ministry of Transportation and Communications			
Ministry Administration Program			
Apr. 1, 1980	Financial Services	500,000	161,759
Apr. 1, 1980	Legal Services	70,000	69,381
Apr. 1, 1980	Personnel Services	50,000	34,622
Apr. 1, 1980	Supply and Office Services	505,000	366,169
Apr. 1, 1980	Audit Services	275,000	191,067
Planning, Research and Development Program			
Mar. 4, 1980	Research and Development	4,800,000	4,218,353
Safety and Regulation Program			
Apr. 1, 1980	Licensing	250,000	10,216
Apr. 1, 1980	Examination, Inspection and Enforcement	775,000	—
Provincial Roads Program			
Apr. 1, 1980	Program Administration	1,650,000	1,315,161
Apr. 1, 1980	Design	3,400,000	3,248,304
Apr. 15, 1980	Maintenance	6,055,000	6,042,039
Provincial Transit Program			
Feb. 28, 1980	Operations	2,550,000	2,538,473
Municipal Roads Program			
Apr. 1, 1980	Program Administration	390,000	310,929
Mar. 25, 1980	Capital, Construction and Maintenance ..	5,000,000	2,068,546
		26,270,000	20,575,019

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Social Development Policy			
	Social Development Policy Program		
Apr. 15, 1980	Social Development Policy	86,800	74,247
Apr. 15, 1980	Youth Secretariat and Youth Experience	110,000	98,859
		196,800	173,106
Ministry of Colleges and Universities			
	Student Affairs Program		
Mar. 4, 1980	Student Support	122,900	—
Ministry of Community and Social Services			
	Ministry Administration Program		
Mar. 25, 1980	Main Office	49,600	4,375
Mar. 25, 1980	Supply and Office Services	115,200	115,200
Apr. 15, 1980	Supply and Office Services	7,000	6,999
Mar. 25, 1980	Personnel Services	58,600	33,975
Mar. 25, 1980	Information Services	65,800	65,800
Apr. 15, 1980	Information Services	9,500	4,322
Mar. 25, 1980	Audit Services	3,000	—
Apr. 15, 1980	Audit Services	9,000	—
Mar. 25, 1980	Social Assistance Review Board	42,200	13,922
	Adult Services Program		
Mar. 25, 1980	Program Administration	48,500	48,500
Apr. 15, 1980	Program Administration	12,000	499
Mar. 11, 1980	Income Maintenance	2,228,900	687,597
Mar. 25, 1980	Developmental Services for Adults	7,766,800	7,766,800
Apr. 15, 1980	Developmental Services for Adults	661,300	156,313
	Children's Services Program		
Feb. 18, 1980	Program Administration	900,400	677,432
Mar. 25, 1980	Child Welfare and Health Services	688,900	—
Mar. 25, 1980	Detention and Correctional Services	983,600	509,638
		13,650,300	10,091,372
Ministry of Culture and Recreation			
	Ministry Administration Program		
Mar. 25, 1980	Main Office	23,000	23,000
Apr. 15, 1980	Main Office	127,600	67,029
Apr. 15, 1980	Financial Services	34,500	8,351
Apr. 15, 1980	Personnel Services	27,500	23,352
Apr. 29, 1980	Personnel Services	1,500	—
Apr. 15, 1980	Information Services	54,400	28,456
Apr. 15, 1980	Legal Services	12,000	11,855
Apr. 15, 1980	Audit Services	26,200	10,859
Apr. 15, 1980	Field Services	312,700	270,324
Mar. 25, 1980	Systems Development Services	25,000	23,871
Apr. 15, 1980	Systems Development Services	5,500	—

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Culture and Recreation (cont'd)			
	Heritage Conservation Program		
Apr. 15, 1980	Archives	119,100	111,209
Apr. 15, 1980	Heritage Administration	143,200	—
Apr. 15, 1980	Huron Historical Sites	48,900	46,374
Apr. 15, 1980	Old Fort William	41,200	28,868
	Arts Support Program		
Apr. 15, 1980	Ontario Science Centre	385,900	385,900
Apr. 29, 1980	Ontario Science Centre	32,000	27,436
	Citizenship and Multicultural Support Program		
Jan. 29, 1980	Citizenship Development	790,900	—
Apr. 15, 1980	Citizenship Development	70,300	—
Apr. 1, 1980	Special Services for Native People	50,000	50,000
Apr. 15, 1980	Special Services for Native People	77,600	50,873
Jan. 15, 1980	Translation Services	150,000	110,684
Apr. 15, 1980	Translation Services	92,500	—
	Libraries and Community Information Program		
Apr. 1, 1980	Library Services	700,000	613,673
Apr. 15, 1980	Library Services	23,700	—
Apr. 29, 1980	Library Services	10,000	—
Apr. 15, 1980	Community Information	189,000	114,657
	Sports and Fitness Program		
Apr. 15, 1980	Program Administration	148,200	24,119
Apr. 15, 1980	Organized Sports	40,200	—
	Ministry Capital Support Program		
Apr. 1, 1980	Capital Support	2,912,300	—
		6,674,900	2,030,890
Ministry of Education			
	Ministry Administration Program		
Apr. 1, 1980	Supply and Office Services	100,300	84,971
Apr. 1, 1980	Personnel Services	21,200	10,620
Apr. 1, 1980	Analysis and Planning	12,900	6,573
Apr. 1, 1980	Legal Services	3,200	1,697
	Education Program		
Apr. 1, 1980	Schools for the Blind and Deaf	934,800	405,604
Apr. 1, 1980	Educational Programs in the Developmental Centres Schools	456,000	243,037
Apr. 18, 1980	Educational Programs in the Training Schools	219,600	158,793
Apr. 1, 1980	Correspondence Education	100,300	100,201
Apr. 1, 1980	Regional Services	306,800	239,840
	Services to Education Program		
Apr. 18, 1980	Education Relations Commission	88,200	87,537
		2,243,300	1,338,873

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Health			
	Ministry Administration Program		
Apr. 1, 1980	Financial Services	243,000	232,504
Apr. 1, 1980	Supply and Office Services	171,000	169,629
Apr. 1, 1980	Information Services	117,000	116,811
Apr. 1, 1980	Analysis and Planning	16,000	13,209
	Institutional Health Services Program		
Apr. 1, 1980	Program Administration	24,000	23,988
Apr. 1, 1980	Psychiatric Services	12,836,000	11,827,795
Apr. 1, 1980	Ambulance Services	461,000	448,146
Apr. 1, 1980	Laboratory Services	801,000	747,879
Apr. 1, 1980	Institutional Care Services	2,189,000	949,540
	Health Insurance Program		
Apr. 1, 1980	Health Insurance	11,358,000	11,288,117
		28,216,000	25,817,618
	Total Management Board Orders	161,890,065	135,969,169

EXHIBIT 3

STATUTORY APPROPRIATIONS
AMOUNTS EXPENDED THEREUNDER
DURING THE YEAR ENDED MARCH 31, 1980

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Office of The Premier	Premier's Salary	Expenditure	27,300
Management Board of Cabinet	Minister's Salary	Expenditure	19,656
Government services	Minister's Salary	Expenditure	19,656
	Ministers without Portfolio Salaries	Expenditure	13,001
	Contract security deposits	Charge	33,700
	Effingham Park Expropriation Trust Account	Charge	20,541
	Government Stationery Account	Expenditure	257,158
			344,056
Intergovernmental Affairs	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	<i>Payments in lieu of taxes</i>		
	The Whirlpool Rapids Bridge Act	Expenditure	36,000
	The Lewiston-Queenston Bridge Act	Expenditure	20,000
	Election Expenses		
	The District of Parry Sound		
	Local Government Act, 1979	Expenditure	32,974
	Loans to municipalities under The Shoreline		
	Property Assistance Act, 1973	Disbursement	564,400
			678,490
Northern Affairs	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
			25,116
Revenue	Minister's Salary	Expenditure	19,656
	Contract security deposits — Retail Sales Tax	Charge	27,923
	Province of Ontario Savings Office Program	Expenditure	4,220,442
	Payments under The Small Business		
	Development Corporations Act	Expenditure	320,569
			4,588,590

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Treasury and Economics	Minister's Salary	Expenditure	19,656
	<i>Public Debt</i>		
	Interest on Ontario Securities		
	Public Issues		
	For general purposes	Expenditure	107,785,874
	Non Public Issues		
	Canada Pension Plan Investment Fund	Expenditure	661,539,229
	Teachers' Superannuation Fund	Expenditure	258,287,790
	Ontario Municipal Employees'		
	Retirement Fund	Expenditure	117,250,593
	Other	Expenditure	26,144,872
	Interest on Public Service		
	Superannuation Fund	Expenditure	135,734,628
	Interest on Superannuation Adjustment Fund	Expenditure	28,025,294
	Interest on Province of Ontario		
	Savings Office Deposits	Expenditure	53,451,221
	Other interest, exchange, discount and commission	Expenditure	19,344,896
	<i>Development Loans</i>		
	The Ontario Education Capital Aid Corporation	Disbursement	69,039,000
	The Ontario Municipal Improvement Corporation	Disbursement	1,235,000
	<i>Pension Funds, Deposit, Trust, and Reserve Accounts</i>		
	Payments from Public Service Superannuation Fund	Charge	82,897,71
	Payments from Superannuation Adjustment Fund:		
	Public Service Superannuation Plan	Charge	5,152,91
	Teachers' Superannuation Plan	Charge	5,245,14
	Retirement Pension Plan of Ryerson Polytechnical Institute	Charge	24,48
	Caucus Employees Retirement Plan	Charge	7,80
	Payments from Legislative Assembly		
	Retirement Allowances Account	Charge	704,65
	Other	Charge	1,406,84
	Debt Transactions (inclusive of Ontario Hydro)	Retirements of Loans	520,857,11
			2,094,154,71
Office of The Assembly	The Election Act	Expenditure	180,64
	Contribution to Legislative Assembly		
	Retirement Allowances Account	Expenditure	408,5
			589,1

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Office of The Provincial Auditor	Provincial Auditor's Salary	Expenditure	58,798
Justice Policy	Minister's Salary	Expenditure	8,109
	Payments from the Provincial Lottery Trust Fund	Charge	255,000
			263,109
Attorney General	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	Proceedings against The Crown Act	Expenditure	4,905
	Allowances to Supreme Court Judges	Expenditure	178,406
	Allowances to Judges	Expenditure	407,968
			616,395
Consumer and Commercial Relations	Minister's Salary	Expenditure	19,656
	Payments from The Motor Vehicle Accident Claims Fund	Charge	20,024,847
	Security Bond Forfeitures:		
	The Consumer Protection Act	Charge	50,000
	The Motor Vehicle Dealers Act	Charge	90,000
	The Real Estate and Business Brokers Act	Charge	59,650
	The Travel Industry Act	Charge	5,000
	Fees under The Vital Statistics Act	Expenditure	447
	Unclaimed monies	Charge	130
	Contract Security Deposits		
	Athletics Commissioner	Charge	11,800
	Crown Contributions re Judges' Plans	Expenditure	7,206
	The Residential Tenancies Act		
	Administration	Expenditure	529,977
	Operations	Expenditure	1,113,542
			21,912,255
Correctional Services	Minister's Salary	Expenditure	19,656
	Unclaimed monies	Charge	168
	Bequests and scholarships	Charge	112
			19,936
Solicitor General	Hearings under The Police Act	Expenditure	2,751
	Payments under The Ministry of Treasury and Economics Act, 1978	Expenditure	193,088
	Payments under The Police Act, Sec. 47(2)A	Expenditure	25,000

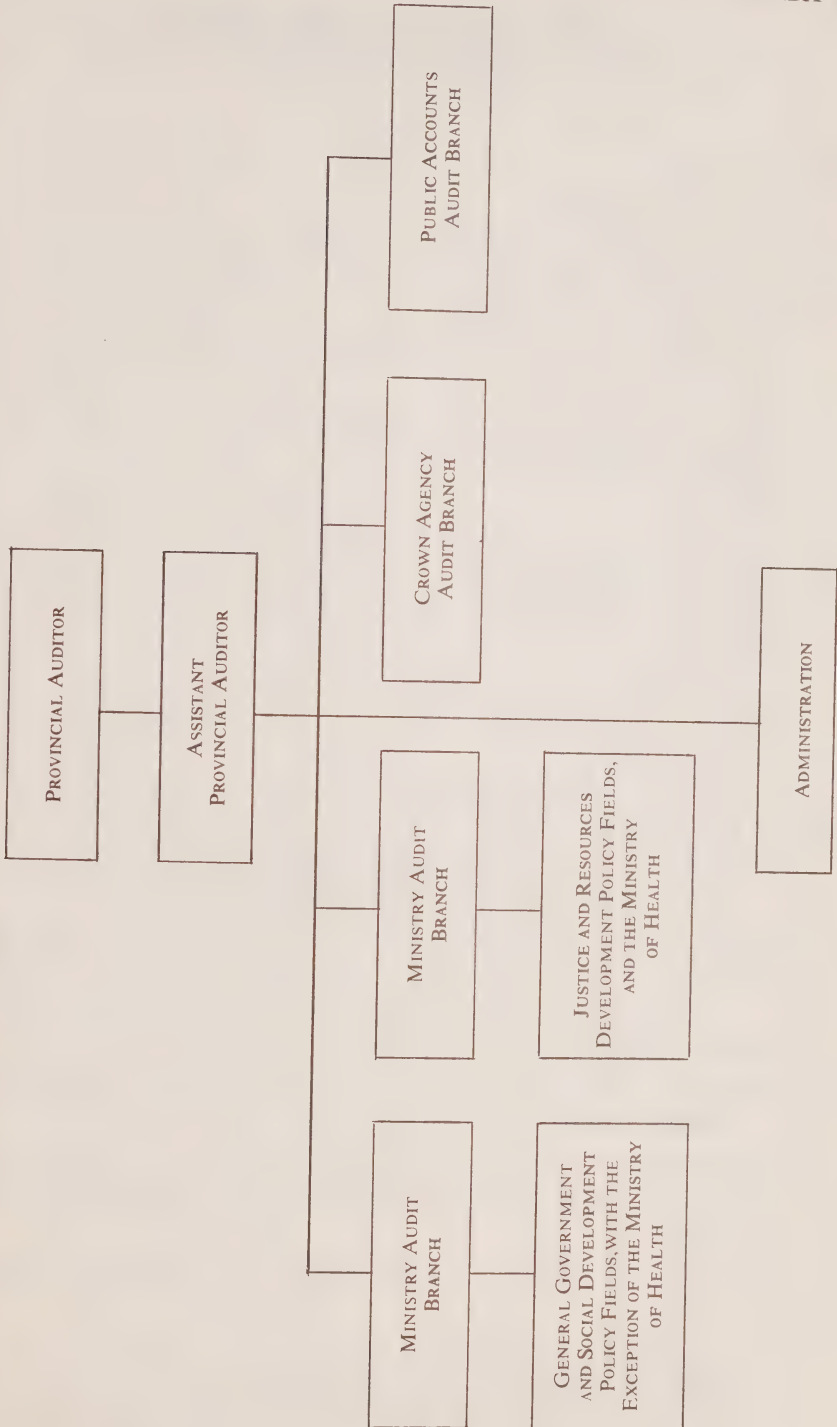
MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Solicitor General (Cont'd)	Payments from the Provincial Lottery		
	Trust Fund	Charge	1,000,000
	Ontario Police College Library	Charge	12,343
			1,233,182
Resources Development Policy	Minister's Salary	Expenditure	19,656
Agriculture and Food	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	Payment of Guarantees	Expenditure	1,801,885
	Subsidy payments to The Ontario Crop Insurance Fund	Expenditure	8,630,736
	Tile Drainage Debentures	Disbursement	29,977,200
	Ontario Agricultural Museum Trust Fund	Charge	16,243
	Advances to Crop Insurance Commission	Disbursement	37,566,524
	Payments from the Provincial Lottery Trust Fund	Charge	800,000
	The Richard Blake Palmer Trust Fund	Charge	529
			78,818,233
Energy	Minister's Salary	Expenditure	11,547
	Parliamentary Assistant's Salary	Expenditure	5,460
			17,007
Environment	Minister's Salary	Expenditure	19,656
	Payments from the Provincial Lottery Trust Fund	Charge	2,628,331
	Reserve Fund for Renewals, Replacements and Contingencies	Charge	580,020
	Sinking Fund for Recovery of the Cost of Capital Assets	Charge	38,061
			3,266,087
Housing	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	Payments from Ontario Mortgage Corporation Deposit Account	Charge	1,304,371
			1,329,487

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Industry and Tourism	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	Ontario Development Corporation Loan Program	Disbursement	17,994,000
	Northern Ontario Development Corporation Loan Program	Disbursement	8,708,000
	Eastern Ontario Development Corporation Loan Program	Disbursement	11,898,000
			<hr/> 38,625,116 <hr/>
Labour	Minister's Salary	Expenditure	19,656
	Payments from the Provincial Lottery Trust Fund	Charge	3,000,000
	Employment Standards Unclaimed vacation-with-pay	Charge	501
	Unclaimed wages	Charge	48,984
	Mine Rescue Training	Expenditure	566,650
			<hr/> 3,635,791 <hr/>
Natural Resources	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	Contract security deposits	Charge	327,249
	Advance to the Algonquin Forestry Authority	Disbursement	58,697
	Payments from the Provincial Lottery Trust Fund	Charge	691,125
			<hr/> 1,102,187 <hr/>
Transportation and Communications	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	City of Niagara Falls — Compensation for loss of Taxes	Expenditure	12,000
	Construction trust account	Charge	1,552,609
	Contract security deposits	Charge	9,200
			<hr/> 1,598,925 <hr/>
Social Development Policy	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
			<hr/> 25,116 <hr/>
Colleges and Universities	The Private Vocational Schools Act, 1974	Charge	4,309
	Queen Elizabeth II Ontario Scholarship Fund	Charge	40,755
			<hr/> 45,064 <hr/>

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Community and Social Services	Minister's Salary	Expenditure	19,656
	Bequests and scholarships	Charge	17,781
	Unclaimed monies	Charge	595
	Payments from the Provincial Lottery Trust Fund	Charge	500,000
			538,032
Culture and Recreation	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	Ontario Olympic Lottery Sports Fund	Charge	1,060,000
	Loto Canada — Trust Account	Charge	1,105,389
			2,190,505
Education	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	Student Aid Loans Write-off	Expenditure	9,975
	Bequests and scholarships	Charge	32,157
	Ontario Education Association — Elementary Teachers' Loan Fund	Charge	266
	Teachers' Superannuation Fund	Expenditure	128,606,599
	Superannuation Adjustment Fund	Expenditure	24,047,333
	Superannuation Adjustment Benefits	Expenditure	32,532,881
			185,254,327
Health	Minister's Salary	Expenditure	19,656
	Parliamentary Assistant's Salary	Expenditure	5,460
	Government Pharmacy	Expenditure	82,358
	Payments from the Provincial Lottery Trust Fund	Charge	2,499,963
	Reserve for outstanding cheques	Charge	19,332
			2,626,769
Total Statutory Payments			2,443,623,086

Summary of Statutory Payments

	\$
Budgetary Expenditure	1,612,416,604
Disbursements	177,040,821
Charges	133,308,551
Retirements of Loans	520,857,110
	2,443,623,086

ORGANIZATION CHART
OFFICE OF THE PROVINCIAL AUDITOR

OFFICE OF THE PROVINCIAL AUDITOR
MINISTRY AUDITS AND SPECIAL REVIEWS
Year Ended March 31, 1980

(See Note)

MINISTRY AUDITS:

Agriculture and Food
Attorney General
Colleges and Universities
Community and Social Services
Consumer and Commercial Relations
Correctional Services
Culture and Recreation
Environment
Government Services
Health
Housing
Industry and Tourism
Intergovernmental Affairs
Labour
Natural Resources
Northern Affairs
Revenue
Solicitor General
Transportation and Communications

SPECIAL REVIEWS:

Other Assistance to Primary Food Production activity of the Agricultural
Production Program, Ministry of Agriculture and Food
Review of the Financial Statements and Budget, The Royal Ontario Museum
Community Priorities and Isolated Communities activities of the Northern
Communities Assistance Program, Ministry of Northern Affairs
Energy Conservation Program, Ministry of Energy
Collection Services activity of the Supply and Services Program, Ministry of
Government Services
Computer Control Reviews — Various Ministries (4) and Agencies (4)
Reviews of Internal Audit Operations — Various Ministries (19) and Agen-
cies (3)
Land Assembly Projects — South Cayuga, Townsend, Edwardsburgh and
Saltfleet

NOTE: In general, this listing includes audits completed between the date (Sep-
tember 28, 1979) of our 1978-79 Report and the date (September 30
1980) of our 1979-80 Report. In all cases, at least a portion of the period
covered by the audit fell within the year ended March 31, 1980.

EXHIBIT 6

**OFFICE OF THE PROVINCIAL AUDITOR
AGENCY OF THE CROWN AND CROWN CONTROLLED
CORPORATION AUDITS**

Year Ended March 31, 1980

(See Notes)

AGENCIES OF THE CROWN

- (i) Whose accounts the Provincial Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body.
 - Ontario Industrial Training Institute
 - *Ontario Land Corporation
 - *Ontario Mortgage Corporation
 - The Owen Sound Transportation Company, Limited (December 31, 1979)
 - Soldiers' Aid Commission
 - Star Transfer Limited (December 31, 1979)
- (ii) Whose accounts are audited by the Provincial Auditor pursuant to appointment under any Act or by the Lieutenant Governor in Council.
 - *The Accountant of the Supreme Court of Ontario
 - Agricultural Rehabilitation and Development Directorate of Ontario
 - Alcoholism and Drug Addiction Research Foundation
 - *Algonquin Forestry Authority
 - The Centennial Centre of Science and Technology
 - Commission on Election Contributions and Expenses
 - *The Crop Insurance Commission of Ontario
 - *Eastern Ontario Development Corporation
 - *Farm Income Stabilization Commission of Ontario
 - The Fund for Milk and Cream Producers, The Milk Commission of Ontario
 - The John Graves Simcoe Memorial Foundation
 - The Law Society of Upper Canada, Legal Aid Fund
 - *Liquor Control Board of Ontario
 - The McMichael Canadian Collection
 - *The Niagara Parks Commission (October 31, 1979)
 - *Northern Ontario Development Corporation
 - North Pickering Development Corporation
 - Office of the Assembly
 - *Office of the Official Guardian
 - Office of the Ombudsman
 - Ontario Agricultural Museum
 - The Ontario Cancer Treatment and Research Foundation
 - Ontario Deposit Insurance Corporation (December 31, 1979)
 - *Ontario Development Corporation
 - *The Ontario Education Capital Aid Corporation

- The Ontario Educational Communications Authority
- *Ontario Food Terminal Board
- The Ontario Heritage Foundation
- *Ontario Housing Corporation (December 31, 1979)
- *The Ontario Junior Farmer Establishment Loan Corporation
- *Ontario Lottery Corporation
- *The Ontario Municipal Improvement Corporation
- *Ontario Northland Transportation Commission (December 31, 1979)
- *Ontario Place Corporation
- Ontario Racing Commission
- *Ontario Stock Yards Board (June 30, 1979)
- The Ontario Telephone Development Corporation
- *The Ontario Universities Capital Aid Corporation
- Pension Commission of Ontario
- Province of Ontario Council for the Arts
- *Public Service Superannuation Fund
- *The Public Trustee of the Province of Ontario
- Residential Tenancy Commission
- The St. Clair Parkway Commission (December 31, 1979) (Note 2)
- The St. Lawrence Parks Commission
- *Superannuation Adjustment Fund

- (iii) Whose accounts are audited by an auditor, other than the Provincial Auditor, appointed by the Lieutenant Governor in Council.

- Board of the Community Psychiatric Hospital, Guelph (Note 2)
- Clarke Institute of Psychiatry (Note 2)
- The Ontario Cancer Institute (Note 2)
- Ontario Mental Health Foundation (Note 2)
- Teachers' Superannuation Fund (December 31, 1979) (Note 2)
- *Workmen's Compensation Board (December 31, 1979)

- (iv) The audit of whose accounts the Provincial Auditor is required to direct or review, or in respect of which the auditor's report and working papers used in the preparation of the auditor's statement are required to be made available to the Provincial Auditor under the agency's governing Act.

- *Toronto Area Transit Operating Authority

CROWN CONTROLLED CORPORATIONS, whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

- The Board of Governors of The Ontario Institute for Studies in Education (April 30, 1980)
- Minaki Lodge Resort Ltd.
- Minaki Development Company Limited
- Ontario Cream Producers' Marketing Board (September 30, 1979)
- *Ontario Energy Corporation (December 31, 1979)

Ontario Historical Studies Series

*Ontario Hydro (December 31, 1979)

The Ontario Milk Marketing Board (October 31, 1979)

Ontario Municipal Employees Retirement Board (December 31, 1979)

Ontario Research Foundation (December 31, 1979)

Ontario Share and Deposit Insurance Corporation (December 31, 1979)

*The Ontario Transportation Development Corporation (December 31, 1979)

The Royal Ontario Museum (June 30, 1979)

Thunder Bay Ski Jumps Limited

*Urban Transportation Development Corporation Ltd. (December 31, 1979)

*Audited financial statements reproduced in 1979-80 Public Accounts, the majority appearing in Volume 2 thereof.

NOTE 1: In all cases, the audit covered the fiscal period of the Agency or Corporation concerned. In most cases, the fiscal period ended on March 31, 1980. Where the fiscal period ended on a date other than March 31, 1980, such date has been indicated in parenthesis.

NOTE 2: See section 84 of our 1978-79 Report. Pursuant to The Audit Amendment Act, 1979, the following bodies, which were included as Crown controlled corporations in Exhibit 6 to our 1978-79 Report, are now classified as agencies of the Crown:

Board of the Community Psychiatric Hospital, Guelph

Clarke Institute of Psychiatry

The Ontario Cancer Institute

Ontario Mental Health Foundation

Also pursuant to this Act, The St. Clair Parkway Commission and the Teachers' Superannuation Fund, which were not included in Exhibit 6 to our 1978-79 Report, are now classified as agencies of the Crown.

**STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS CONTAINED
IN THE PROVINCIAL AUDITOR'S PREVIOUS ANNUAL REPORTS**

EXHIBIT 7

(See Note)

		STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT	
REPORT	SECTION	CAPTION	
		Ministry of Agriculture and Food	
1978-79	* 45	Current relevance of grants queried.	Substantially implemented.
1978-79	* 46	Refinements needed in Management by Results process.	Substantially implemented.
		Ministry of The Attorney General	
1978-79	* 48	Poor controls over inventories of furniture and equipment.	Implemented.
		Ministry of Colleges and Universities	
1978-79	* 49	Substantial lack of compliance with guidelines and other matters re Training in Business and Industry Program.	Substantially implemented.
		Ministry of Community and Social Services	
1978-79	50	Criteria and other matters related to the use of consultants queried.	Status to be verified at time of next audit in this area.
		Ministry of Consumer and Commercial Relations	
1977-78	* 51	Non-compliance with relevant legislation.	Implemented.
1977-78	* 52	Deficiencies noted re boiler inspections.	Implemented.
		Ministry of Education	
1978-79	* 52	Recommendations relating to Centre funded by Ministry grants.	Implemented.
1978-79	53	Review of grant payments for transportation to Lanark County Board of Education.	Status to be verified at time of next review in this area.
		Ministry of The Environment	
1978-79	54	Detailed review of Waste Recovery Program.	Status to be verified at time of next review in this area.

(See Note)

		STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT	
REPORT	SECTION	CAPTION	
1978-79	* 55	Improved reporting and evaluation procedures recommended for Experience Program.	Substantially implemented.
1978-79	* 56	Inadequate rate reviews for water and sewage charges to municipalities.	Implemented.
1978-79	* 57	Observations re expenditure of the Royal Commission on the Northern Environment.	Substantially implemented.
1978-79	* 58	Recommendations for improvements in Branch efficiency.	Substantially implemented.
1978-79	59	Revenue from licences.	Status to be verified at time of next audit in this area.
1978-79	* 60	Ministry of Government Services Land acquisition, the Parkway Belt West.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1977-78	* 66	Ministry of Health Improved collection procedures recommended re bursaries recoverable.	Substantially implemented.
1977-78	* 67	Improved verification procedures recommended re partially and fully assisted participants, Ontario Health Insurance Plan.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1978-79	* 62	Numerous weaknesses in Government pharmacy system.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1978-79	64	Substantial funding of medical clinic questioned.	Not resolved. Formed the subject matter for Standing Public Accounts Committee meetings of April 10, 1980 and June 5, 1980 and will be discussed further in the fall meetings.
1978-79	* 66	Ministry of Housing Procedural improvements recommended re grants paid pursuant to Ontario Home Renovation Program.	Implemented.

**STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS CONTAINED
IN THE PROVINCIAL AUDITOR'S PREVIOUS ANNUAL REPORTS—CONTINUED**

(See Note)

REPORT	SECTION	CAPTION	STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
1978-79	* 67	Ministry of Industry and Tourism Observations re tourism marketing development operations.	Implemented.
1978-79	69	Ministry of Intergovernmental Affairs Rationale for grant payments queried.	Status to be verified at time of next audit in this area.
1978-79	* 73	Ministry of Revenue Observations re revenue collected under The Provincial Land Tax Act.	Implemented.
1977-78	* 74	Ministry of The Solicitor General Recommendation re Ontario Police College Library Fund.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1977-78	* 76	Ministry of Transportation and Communications Deficiencies in internal control relating to accounts receivable.	See further comment in section 2.17 of 1979-80 Report.
1977-78	* 93	Crown Agencies Comments on leased vehicles, Liquor Licence Board.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1978-79	88	Review of Crop Insurance Program, The Crop Insurance Commission of Ontario.	Status to be verified at time of next review in this area.
1978-79	* 89	Comments on funding of independent community-based clinical delivery systems, Legal Aid Fund.	Substantially implemented.
1978-79	* 90	Matters related to accounts receivable and increase in fee, Motor Vehicle Accident Claims Fund	Alternative procedures proposed by the Ministry to be implemented.

(See Note)

REPORT	SECTION	CAPTION	STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT	
1978-79	* 91	Operating losses on various activities, Office of the Assembly.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.	
1978-79	92	Inaction noted re recommended closing of Branch facility, Ontario Agricultural Museum.	Not resolved. Situation under review by Ministry of Agriculture and Food.	
1978-79	* 94	Non-routine and non-arm's length transactions, Ontario Food Terminal Board.	Substantially implemented.	
1978-79	* 97	Opportunity for improved allocation of grants, Province of Ontario Council for the Arts.	Not implemented—not considered practical by Council.	
1978-79	*100	Improved computer controls recommended, Workmen's Compensation Board.	In process of implementation—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.	

NOTE: This Exhibit provides the status of all suggested corrective action and recommendations which were:

- (a) considered unresolved per Exhibit 7 of the 1978-79 Auditor's Report,
- (b) contained in the body of the 1978-79 Auditor's Report.

* Considered resolved as at September 30, 1980, the date of this Report.

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY

EXHIBIT 8

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
July 10, 1975	4.	The Committee also recommends again most strongly that adequate guidelines be drawn up with respect to the use and security of information used and stored by the government computer service.	Section 55-2-5 of the Manual of Administration presently includes general policies regarding the security of data in computer systems. Per Exhibit 8 of the 1978-79 Report, we were advised on August 1, 1978 by the then Secretary of Management Board of Cabinet that, in light of the work that was currently being carried out regarding the use and security of data, by both the Commission on Freedom of Information and Individual Privacy and the Commission of Inquiry into the Confidentiality of Health Records in Ontario, any revision of the administrative guidelines at that time would seem premature. However, the progress of both Commissions was being monitored by Management Board, and it was planned to make any necessary changes as soon as possible after their findings were announced.
December 14, 1976	10.	The Committee recommends that detailed regulations be developed setting out the criteria for the payment of grants to Universities and Colleges.	As at the date of preparation of this Exhibit, the Royal Commission on Freedom of Information and Individual Privacy has just recently released its final report, and the Royal Commission of Inquiry into the Confidentiality of Health Records in Ontario has not yet issued a final report. We note that no such regulations have been published as at the date of this Report. We also have no record of a reply being received to memoranda sent to the Deputy Minister on July 9 and September 9, 1980 requesting the current status of this recommendation.
March 29, 1977	* 2.	The Committee recommends that the Government should develop a plan for the future of Minaki Lodge and report to the House as soon as possible.	On April 21, 1980, the Minister of Industry and Tourism announced in the House that a management agreement had been signed "with the Radisson Hotels, a major international hotel chain, to operate and manage Minaki Lodge. With the signing

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

EXHIBITS

169

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
March 29, 1977	*—	<p>The Committee further recommends that the Government should explore the process for acquisition of property by the Development Corporations and examine the appropriateness of retaining ownership by the Development Corporations as compared to direct ownership by a Ministry or by an appropriate Crown Corporation.</p>	<p>of that agreement, operation of the 150 room, world-class Minaki Lodge will commence in the spring of 1982".</p> <p>On September 15, 1980 the Deputy Minister of Industry and Tourism advised us that:</p> <p>"Proposed action following completion of the Woods Gordon study of the appropriateness of retaining ownership by the Corporation of its industrial parks is:</p> <ol style="list-style-type: none"> 1. the industrial complexes remain under the Development Corporation's management. 2. a long term strategy be adopted to facilitate a complete severance of all institutional/educational, residential and recreational properties. <p>"Implementation of these recommendations will leave the Corporation committed solely to the development of industrial properties and the creation of further employment opportunities in the parks' area.</p> <p>"As regards '2' above you will be interested to know that final transfer of lands and buildings previously rented from the parks by M.G.S. is scheduled for completion prior to the end of this month."</p> <p>The Deputy Minister of Industry and Tourism wrote to the Chairman of the Standing Public Accounts Committee as follows on January 23, 1980:</p> <p>"The administrative and financial control procedures are operating satisfactorily.</p> <p>"The Board of Directors is responsible for approving operating and financial policy of the Corporation, and the management is held responsible for complying with the policy."</p>
December 20, 1979	* 1.	<p>The Committee recommends that the Board of Directors of Ontario Place Corporation must assume formal responsibility for approving the actions of Ontario Place Corporation's management, particularly in the matters of financial accountability.</p>	

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
December 20, 1979	* 2.	<p>The Committee recommends the situation whereby civil servants in the Lotteries Branch of the Ministry of Consumer and Commercial Relations exercise discretion regarding the extent of the terms and conditions of lotteries be brought to an end.</p> <p>The Committee recommends that if the current terms and conditions are, in fact, unworkable, new and workable terms and conditions in regard to lotteries should be drafted. Any discretions in the application of these terms and conditions should be only with the Minister. It is understood, of course, that he may delegate this responsibility.</p>	<p>On January 31, 1980 the Minister of Consumer and Commercial Relations wrote as follows to the Chairman of the Standing Public Accounts Committee:</p> <p>"The Minister has the authority to impose terms and conditions on lottery licences. At the time of my appointment I gave direction to the Director of the Lotteries Branch in the exercise of discretion in the application of terms and conditions to the issuance of lottery licences.</p> <p>"The direction given on the application of the delegated authority has been reviewed constantly and updated as I reviewed with the Director of the Lotteries Branch situations which presented features which were new or untried in light of traditional practice.</p> <p>"Terms and conditions of lottery licencing are therefore constantly being reviewed in the light of changes in the charitable fund raising field."</p>
December 20, 1979	* 3.	<p>The Committee recommends that a policy which encourages employees to use their own vehicles and be compensated on a kilometre basis be adopted by the Liquor Licence Board and by the government generally where feasible and economical.</p>	<p>As to the Liquor Licence Board specifically, on March 25, 1980 Management Board of Cabinet recommended that employees of the Liquor Licence Board be permitted the private use of the Board's leased vehicles, provided the Board is reimbursed at a rate sufficient to recover the full operating costs per kilometre of its fleet. At the same time, Management Board recommended that the Liquor Licence Board continue its efforts to have its employees comply with the policy which prohibits the private use of government vehicles.</p> <p>As to the government generally, chapter 60-2 of the Ontario Manual of Administration (as revised September 1, 1980) contains the following provisions:</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
December 20, 1979	* 5	The Committee is pleased to note that the 1979-80 Ontario Student Assistance Program (OSAP) application forms contain an explicit warning regarding the consequences of making a false statement. The Committee recommends that the government pursue all actions necessary to recover any improperly obtained funds.	<p>(1) "Employees on travel status shall use the most practical and economical means of transportation as determined by the deputy head."</p> <p>(2) "When it is to a Ministry's advantage, employees may be permitted to use personal vehicles on government business. Compensation shall be based on the rates established in Section 5.12 of this policy" (i.e. rate per kilometre).</p> <p>On April 18, 1980, the Deputy Minister of Colleges and Universities wrote the Chairman of the Standing Public Accounts Committee as follows:</p> <p>"The Student Awards Branch is continuing to effect recovery of improperly obtained funds through Central Collection Services of Ministry of Government Services, and through C.C.S. with private collection agencies. In addition, certain cases are referred to the Ontario Provincial Police for investigation with a view to prosecution and subsequent recovery."</p> <p>"The 1980-81 application form continues to advise that any funding obtained by fraud or false pretenses may result in the applicant being prosecuted under the provisions of the Criminal Code of Canada, in addition to repaying the funding and being denied further assistance."</p> <p>The Deputy Minister of Intergovernmental Affairs advised the Chairman of the Standing Public Accounts Committee as follows on March 7, 1980:</p> <p>"Prior to the 1979 Program, a study was conducted on administrative and data processing procedures and systems. These were, in general, found very adequate. Some changes were made in administrative controls following the report which assisted in the administration of the 1979 program."</p>
December 20, 1979	* 6	As a result of its review of section 78 of the March 31, 1978 Report of the Provincial Auditor, dealing with the Ontario Youth Employment Program, the Committee recommends that whenever possible, accounting and auditing procedures should be in place before disbursement of funds for a program begins.	

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
December 20, 1979	* 7.	Resulting from its review of section 79 of the March 31, 1978 Report of the Provincial Auditor, dealing with the payment of unconditional grants, the Committee finds the payments of grants before the filing of regulations an inappropriate procedure. The Committee recommends that such payments not be made in the future prior to the filing of the enabling legislation.	<p>"In addition, the number of audits done prior to payment was doubled for 1979, resulting in fewer refunds and overpayments.</p> <p>"In summary, it is my view that the accounting and auditing procedures and controls have been assessed, improved and were satisfactory for the 1979 O.Y.E.P."</p> <p>On September 9, 1980 the Secretary, Management Board of Cabinet, advised us that:</p> <p>"I believe that the appropriate instructions are in place to facilitate the Committee's recommendation.</p> <p>"The requirement for filing of regulations is clearly set out in the document 'Guidelines for Preparing Cabinet Submissions'. Point (6) on page 11 reads as follows:</p>
			<p>FILING</p> <p>Before the regulation can come into force, the Ministry must file the two (2) copies of the regulation with the Registrar of Regulations. The regulation is published in the Ontario Gazette within one month of filing.</p>
			<p>"The Ontario Manual of Administration, under the heading 'Submissions to Cabinet' (page 10-15-1), refers to the Guidelines and their source, Cabinet Documents Services."</p>
December 20, 1979	* 8.	The Committee debated at length the problem of civil servants' individual responsibility and accountability. The Committee noted that it was often difficult to pinpoint who had made the error and what, if any,	<p>On September 8, 1980 the Chairman of the Civil Service Commission advised us as follows:</p> <p>"Civil servants are accountable for their actions or lack of action. Deputy ministers do hold civil servants accountable, and may impose penalties, varying from oral and written</p>

RECOMMENDATION #	DATE OF REPORT	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
		(See Note)	
		action had taken place. The Committee recommends that personal accountability for errors be more carefully defined.	reprimands to dismissal, on those who fail to perform their duties in a satisfactory fashion.
			<p>"A performance appraisal program has been developed and introduced throughout the ministries. This program encourages supervisors and subordinates to meet regularly to discuss progress in the work area. Performance appraisal reviews give the supervisors an ideal opportunity to discuss with employees any area of deficiency as well as areas of excellence and ways of improving job performance.</p> <p>"Performance appraisal and a system of pay increases, depending upon satisfactory to excellent performance, act as an incentive toward improving performance. The effect of the incentive is diminished, however, by the fact that over 70 per cent of the bargaining unit and middle management and over 90 per cent of the senior management group have reached their maximum in their particular classes. At the same time, managers are able to defer merit increases if performance on the job is lacking. The ultimate result of continued poor performance is dismissal. As noted in the Commission Annual Report, there were 59 dismissals for the fiscal year 1979-80."</p> <p>The following additional comments were received from the Secretary, Management Board of Cabinet, on September 9, 1980:</p> <p>"Individual accountability is maximized when responsibility and accountability are an integral part of the management process. In this regard, we use a systematic approach to program management called Managing By Results, or MBR for short. By stressing the results aspect of the program or service, the MBR approach facilitates accountability.</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
		(See Note)	
December 20, 1979	*10.	<p>The Committee recommends that the government consider creating a roster of interested qualified consultants, that whenever possible they be paid on a contract or annual basis rather than a per diem and that the question of whether or not a consultant is required should always be raised.</p> <p>The Committee also recommends that greater use be made where possible of the Treasury Department, the Ontario Economic Council studies and the Legislative Library, and that the authors of the Ontario Economic Council studies make their expertise available for select committees of the legislature and Royal Commissions as part of fulfilling their obligations to the Ontario Economic Council.</p>	<p>"As well, through the Management Standards Project, the Management Board will be helping to ensure that ministries are fully equipped to be held accountable for their performance. The Management Standards Project was launched to set standards for management and to design self-testing methods which will allow ministries to evaluate themselves.</p> <p>"Finally, I would note that individual accountability is contingent upon roles being clearly established. The Management Board Secretariat, on a continuing basis, works with ministries to clarify roles and relationships throughout the Government."</p> <p>The Secretary, Management Board of Cabinet, wrote as follows on September 9, 1980:</p> <p>"I believe that the concerns raised by the Committee in the first paragraph are covered by the existing policy on Technical Consulting Services.</p> <p>"The Committee recommends that the Government consider creating a roster of interested, qualified consultants. The policy requires that 'Where there is a significant recurring need for outside technical services of a particular type, ministries shall maintain a list of qualified suppliers of this service.' (Section 50-4-9).</p> <p>"The Committee further recommends that wherever possible the consultants be paid on a contract or annual basis rather than a per diem basis. Assuming that the Committee's major concern is that the total allowable cost be established as part of the contract, the policy does speak to this issue. Section 50-4-15 requires ministries to ensure that every assignment is governed by a written agreement between the ministry and the supplier which specifies, '... estimated total costs, including an upper limit if possible'.</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
December 20, 1979	*11.	Regarding Royal Commissions, the Committee reiterates its recommendations in its past reports and draws attention to the recommendations of Mr. Hart.	<p>"Finally, the Committee recommends that the question of whether or not a consultant is required should always be raised. On this point, Section 50-4-1.3 states that 'Ministries shall not purchase technical consulting services when existing internal resources are available for the assignment.'</p> <p>"In respect to the second paragraph, it is not appropriate for me to comment on the actions of select committees, and I am sure you did not intend that I should.</p> <p>"However, in passing, I would note the document entitled 'Proposals for a New Committee System' recently tabled in the Legislative Assembly by the Standing Procedural Affairs Committee. These proposals address the issue of staffing for select committees, including the use of the research office of the Legislative Library.</p> <p>"In respect to Royal Commissions, guidelines for their administration have been established. The guidelines have been designed to provide an appropriate balance between the responsibility of Government for public funds and the necessary independence of Royal Commissions. They provide for Management Board review of the budgets of Royal Commissions, with particular attention being given to the economical and efficient use of public monies.</p> <p>"Hence, where appropriate and acceptable to the Royal Commission, the use of staff resources from within the Government would be considered. However, the selection of staff is clearly the prerogative of the Commissioners."</p> <p>Revised guidelines for the administration of Royal Commissions were issued in April 1980 as section 25-5 of the Ontario Manual of Administration. Sections of this chapter dealing with remuneration and expenses for Royal Commissioners and</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
		<p>The Committee is of the opinion that salaries, wages and indemnities paid to lawyers working for Royal commissions and select committees is much too high. The Committee therefore recommends:</p> <ol style="list-style-type: none"> The government review its policy of paying legal fees of \$85.00 per hour and particularly a maximum of \$850.00 per day. That the whole matter of legal fees be reviewed particularly in view of the fact that many lawyers are provided with secretarial staff and offices at government expense. That select committees and Royal Commissions be required to justify absolutely the need for legal assistance. That no person be allowed to work for or be a member of more than one royal commission. The Committee also suggests that lawyers who accept such positions for royal commissions should consider that their work is, in part, a service to the community and set fees accordingly. 	<p>members, dates for reporting and termination, application of Management Board administrative policies, staff salaries and expenses and printing and distribution of the final report, all address previous recommendations of the Standing Public Accounts Committee.</p> <p>Regarding the matter of salaries, wages and indemnities paid to lawyers working for Royal Commissions and select committees, the Deputy Attorney General noted on April 10, 1980 that this matter had been addressed by the Attorney General in his statement to the House on May 11, 1979 in the following terms:</p> <p>"... the Director of Common Legal Services in my Ministry, prior to the engagement of legal staff of a Royal Commission evaluates the professional qualifications, expertise and the proposed duties of lawyers to be engaged. A rate has been established based on rates currently being paid by the private sector and is submitted to Management Board for approval in accordance with the provisions of the enabling Order-in-Council."</p> <p>We note that, generally, section 25-5 contains the provision that "Management Board will give specific approval to the rates of remuneration of full and part-time professional and technical staff and consultant's fees. In this regard, staff hired on a full-time basis should be paid on a salaried rather than a per diem basis."</p> <p>In correspondence dated April 10, 1980, the Deputy Attorney General further noted that:</p> <p>"The recommendation of the Committee . . . that no person be allowed to work for or be a member of more than one</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
December 20, 1979	*13.	<p>The Committee would like to draw attention to the Auditor's comments (section 56 of March 31, 1978 Report) on the handling of Wintario non-capital grants and note its concern with payment of grants substantially in advance of need. It recommends that the Ministry of Culture and Recreation should at least recover the interest on these unused funds.</p> <p>The Committee recommends that Ministry auditors do spot checks on large grants to see that the money is spent for the intended purpose and that the regulations are followed.</p>	<p>Royal Commission presumably is a prohibition against current service. This can be accepted as a general principle although there may be rare situations, due to special circumstances such as unique expertise, where an individual's participation in more than one commission may be entirely justifiable. Surely, it would not arise frequently."</p> <p>The Deputy Minister of Culture and Recreation wrote as follows to the Chairman of the Standing Public Accounts Committee on April 17, 1980:</p> <p>"Spot checks of grant files falls within the mandate of our Ministry Internal Auditors. Due to constraints, we do not have enough staff to do as many as we would like, but we are moving to broaden the scope of the internal audits on the use of grant monies. However, this will result in a reduction of the number of Wintario audits currently being carried out."</p>
December 20, 1979	*14.	<p>Regarding section 17 of The Audit Act, 1977, the Committee recommends that when a special audit is requested by a Minister that a copy of the Auditor's Report be tabled in the legislature at the same time as it is given to the Minister in order to allow the Committee to deal with the matter as well, if necessary.</p>	<p>Since section 17 of The Audit Act, 1977 is not specific as to reporting responsibilities, we will advise Ministers of this recommendation at the outset of any such future special assignments.</p>
December 20, 1979	*15.	<p>Regarding the Liquor Control Board of On-</p>	<p>The Deputy Minister of Consumer and Commercial Relations</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
December 20, 1979	*16.	<p>tario, the Committee recommends that discretion in hirings, particularly part-time hirings, should not be left entirely to the local manager, and that guidelines should be established by the Ministry of Consumer and Commercial Relations.</p> <p>The Committee is concerned that at present there is no mechanism for reviewing the expenditures of the Liquor Control Board. It recommends that some procedure for review by the Legislative Assembly, through its Committees, be created.</p>	<p>advised the Chairman of the Standing Public Accounts Committee of the following on February 6, 1980:</p> <p>"The hiring and maintaining of people at the Liquor Control Board depends on their ability. In the smaller communities the local manager is more conversant with his staff requirements and the availability of people. We do not see the need for Ministry guidelines at this time.</p> <p>"In regard to the recommendations for a review mechanism by the Legislative Assembly of the Liquor Control Board, we believe this matter should be dealt with on a global basis by the various government committees presently set up to review agencies, boards and commissions."</p> <p>Section 25-5 of the Ontario Manual of Administration, dealing with the administration of Royal Commissions and issued in April 1980, contains a paragraph stating that "If a Royal Commission decides that because of the nature of the inquiry it is essential to provide funding to other organizations, e.g. community groups, in order that they may prepare briefs and participate more actively in the inquiry, appropriate accounting for money expended and for results achieved must be ensured by the Commission."</p> <p>As to the Royal Commission on the Northern Environment specifically, the Deputy Minister of the Environment advised on February 11, 1980 that:</p> <p>"The Management of the Royal Commission on the Northern Environment has initiated and implemented accounting controls and procedures to regulate the monies expended by the recipients of public interest subsidies."</p>

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
December 20, 1979	*17.	<p>The Committee suggests that for efficiency's sake greater emphasis be placed on the government's deregulation program which does not seem to have made much impact as yet. The Committee notes that fewer than one dozen regulations per year have been removed, while several hundred new regulations per year have been passed. The Committee recommends that some kind of cost-benefit analysis of regulations be made before they are passed.</p>	<p>On February 18, 1980, the Secretary of the Cabinet wrote to the Chairman of the Standing Public Accounts Committee, attaching a detailed summary of Achievements in Regulatory Reform.</p> <p>The Secretary's letter stated, in part, that:</p> <p>"For some time now, Cabinet has required all new policy submissions to be accompanied by an Economic Impact Statement. Similar analyses are now required for new or revised regulatory procedures, including both draft legislation and draft regulations.</p> <p>" . . . It should be recognized, in connection with the Committee's observation concerning the number of regulations filed, that:</p> <p>a) to revoke a regulation requires the filing of a regulation, and</p> <p>b) that effects of an amending regulation may be the lessening of intrusion by government into the public's life.</p> <p>"Therefore, by merely comparing the number of regulations filed with the number of regulations revoked, one cannot deduce that the public is being more regulated or less regulated.</p> <p>"Ministries have been asked to undertake a program review of their legislation and regulations and to incorporate this process within the decennial review of regulations."</p> <p>On January 23, 1980, the Deputy Minister of Industry and Tourism advised the Chairman of the Standing Public Accounts Committee as follows:</p>
December 20, 1979	*18.	<p>The Committee recommends that the Ontario Research Foundation be expanded,</p>	

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
		(See Note)	
		particularly with service to small and medium-sized business in mind. In addition, the Committee recommends that the Foundation ensure that such businesses are aware of the Foundation and its potential for contribution to their greater success.	"The services provided by the Ontario Research Foundation are widely promoted through this Ministry's regional offices. The Small Business Development Branch of the Ministry of the Industry and Tourism is involved in joint programs to ensure that O.R.F. services reach small businessmen.
		The Committee notes that the Foundation has been the subject of review by the Standing Procedural Affairs Committee and urges that the Foundation note that Committee's recommendations, in particular that The Ontario Research Foundation Act, 1944, be revised.	"The report by the Standing Procedural Affairs Committee is currently being reviewed by O.R.F. and the Ministry's Industry Division officials, and the recommendation to revise the Ontario Research Foundation Act, 1944, will be taken into consideration.
		The Committee recommends that small businesses be given greater representation on the Foundation's governing Board.	"The small business community is currently represented on the Foundation's Governing Board by the following members: Mr. H.T. Beck — Noma Industries Ltd. Mr. D. Green — Tridon Ltd. Mr. B. Healey — Canadian Manufacturers' Association Mr. G. Sinclair — Sinclair Radio Laboratories Ltd."
December 20, 1979	*21.	The Committee recommends that the leases at the Ontario Food Terminal Board be reviewed, particularly to ensure that there is not trading or profit-taking of individuals in the sub-letting of stalls. The Committee also recommends that the Ontario Food Terminal Board operate on a break-even basis as much as possible.	On January 31, 1980, the Deputy Minister of Agriculture and Food wrote the following to the Chairman of the Standing Public Accounts Committee: "The leases at the Ontario Food Terminal are constantly under review by the Ontario Food Terminal Board, but it should be pointed out that sub-leasing is authorized by the Board from time to time, mainly on a seasonal basis. For example, an imported tomato lease holder is authorized to sub-lease his units in the off-season to a wholesaler who requires extra space during the Ontario domestic season. "... In such cases, the rate of sub-lease is a private matter between the two parties and is not determined by the Board.

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

EXHIBITS

181

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
		(See Note)	
			Records of sub-leases are kept by the Board and are available at any time for review.
			"The Ontario Food Terminal does endeavour to operate on a break-even basis as much as possible. It must be understood however, that this cannot be accomplished on an exact basis each fiscal year as volume of trucks and vehicles using the Terminal varies. However, rates for services and vehicle admissions are adjusted as and when necessary to ensure that on average, a minimum of fiscal losses or profits occur over the long term. It must also be recognized that no public funds are expended in the operation of the Ontario Food Terminal, and rates for services and other operating expenses are determined solely by the Board."
December 20, 1979	*22.	The Committee recommends that the Ministry of Culture and Recreation become more involved in the financial operations of The Royal Ontario Museum. Specifically, the Committee recommends that the Museum not be permitted to proceed with capital projects without the approval of Management Board which should be responsible for seeing that funds for the project are actually in existence before approval is given. The Committee directs the Auditor to update his June, 1979 report on The Royal Ontario Museum since the Committee expects to review progress in improving the financial affairs of the Museum as well as	On April 17, 1980, the Deputy Minister of Culture and Recreation advised the Chairman of the Standing Public Accounts Committee as follows: "We concur with the concerns mentioned in the Report and intend to take measures to become more fully aware of the financial operations of the R.O.M. These measures will include participation in the decision-making processes and an audit of the records and finance of the R.O.M." "As far as the recommendation that Management Board approve such capital projects, it would perhaps be more appropriate at this time to try to develop more internal accountability, and later proceed to the more intensive approach recommended, if necessary."
			A memorandum updating our June 1979 memorandum on

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

DATE OF REPORT	RECOMMENDATION #	(See Note)	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
December 20, 1979	*23.		<p>The current status of the expansion program of the Museum in the immediate future.</p> <p>The Committee views with concern the difficulty which surrounds the dismissal of redundant staff. The Committee observes that management may not be using the services of existing staff to maximum benefit.</p> <p>The Committee recommends that alternate forms of permanent severance should be considered where staff are deemed redundant or incompetent.</p>	<p>The Royal Ontario Museum was prepared and was reviewed by the Committee at its February 26, 1980 meeting.</p> <p>The Chairman of the Civil Service Commission, on September 8, 1980, advised us as follows:</p> <p>"Recommendation No. 23 tends to address the problem of redundant and incompetent staff as if they were the same; this is not the case.</p> <p>"The only constraint on the employer's right to terminate employees who are surplus to requirements is the orderly process established by the regulations and the collective agreement. The details are set out in the Manual of Administration, Volume 2, Section 5 Terminating a redundant employee is not a difficult management procedure. Terminating an incompetent staff member is more complex since such employees, by law, have the right to challenge the employer's action through the grievance procedure.</p> <p>"Where incompetence stems from some voluntary malfeasance, the normal disciplinary process must be followed. Where it results from a physical or mental problem, each case is examined to determine whether the employee's disability is such that he or she qualifies for a sickness and disability benefit or whether the employee is capable of performing alternative work. Termination may, however, still result if alternative work, which it is deemed the employee could perform, is not available.</p> <p>"We have also considered the matter of red-circling and the committee's concern that this approach not be used as an alternative to firing employees deemed incompetent. In the</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1979-80 AUDITOR'S REPORT
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case of incompetency, punitive actions are those outlined in the response to recommendation 8. Red-circle protection is not appropriate in the event of a demotion. In the case where a redundancy occurs through 'no fault' of the employee, red-circling is appropriate."

NOTE: This Exhibit includes the status of recommendations contained in all Reports of the Standing Public Accounts Committee from July 10, 1975 to May 31, 1979 which were considered unresolved as at the date of the 1978-79 Auditor's Report (see Exhibit 8 of the 1978-79 Auditor's Report). The Exhibit also includes the status of all recommendations contained in the Committee's December 20, 1979 Report to the Legislature.

*Considered resolved as at September 30, 1980, the date of this Report.

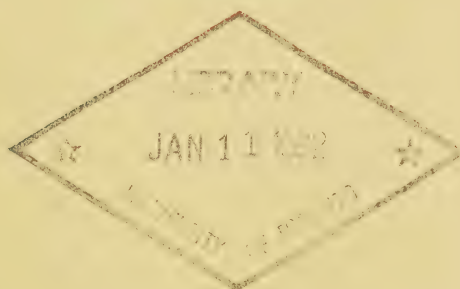
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for the year ended March 31, 1981

ANNUAL REPORT
of the
PROVINCIAL AUDITOR
of
ONTARIO

for the year ended March 31, 1981

THE HONOURABLE JOHN M. TURNER, M.P.P.,

*Speaker of the Assembly
Province of Ontario*

Dear Sir:

I have the honour to present my report for the year ended March 31, 1981, in accordance with the requirements of The Audit Act.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'F. N. Scott', written in a cursive style.

F. N. Scott, F.C.A.,
Provincial Auditor.

Toronto, September 30, 1981.

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TABLE OF CONTENTS

	SECTION	PAGE
GENERAL		
Introduction	1.1	9
Timetable for Preparation and Submission of Annual Report	1.2	9
Exception Basis of Reporting	1.3	9
Communication of Audit Observations	1.4	9
Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports	1.5	10
The Standing Public Accounts Committee	1.6	10
Recommendations of the Standing Public Accounts Committee	1.7	11
Public Accounts Committees and Legislative Auditors	1.8	12
Management Board Initiatives for Improved Management Practices	1.9	12
 COMMENTS ON MINISTRY OPERATIONS		
Introductory Comments	2.1	15
Recommendations for Improvements in Compiling and Reporting Results and for Improved Economy, Ministry of Agriculture and Food	2.2	15
Limousine Services, Ministry of the Attorney General	2.3	16
Operations of Small Claims Courts, Ministry of the Attorney General	2.4	17
Questionable Practices, Ministry of the Attorney General	2.5	19
Review of Staff Training Services and Staff Development Centre Activities, Civil Service Commission	2.6	19
Control Deficiencies re Service Agreements, Ministry of Community and Social Services	2.7	28
Potential for Duplication of Functions, Ministry of Community and Social Services	2.8	29
Deficiencies in Lotteries Branch Reporting System, - Ministry of Consumer and Commercial Relations	2.9	(30)
Allocation of Probation Officers, Ministry of Correctional Services	2.10	32
Lack of Due Regard for Economy, Ministry of Energy	2.11	32

	SECTION	PAGE
Management Control Deficiencies re Word Processing Centre, Ministry of Energy	2.12	33
Non-Compliance with Procedures and Other Matters re Purchase of Consulting Services, Ministry of Energy	2.13	34
Disposition of Parkway Belt West-Related Lands, Ministry of Government Services	2.14	36
Refinements in Contingency Plans Recommended re Government Computer Centres, Ministry of Government Services	2.15	36
Operational Improvements Recommended re Ambulance Services Branch, Ministry of Health .	2.16	39
Improvements in Affirmative Action Program Delivery Recommended, Women Crown Employees Office, Ministry of Labour	2.17	44
Potential for Duplication of Effort and Performance Appraisals, Women's Bureau, Ministry of Labour	2.18	48
Matters Related to Efficiency of Technical Services Division, Ministry of Municipal Affairs and Housing	2.19	52
Systems and Other Deficiencies re Payment of Ontario Pensioners Property and Sales Tax Grants, Ministry of Revenue	2.20	53
Comments and Recommendations re Experience Program, Provincial Secretariat for Social Development	2.21	56
Overexpenditure of Various Activities, Ministry of the Solicitor General	2.22	64
Implementation Gaps re Strategic Policy Development and Planning Process, Ministry of Transportation and Communications	2.23	66
Simplification of Workload and Improvement in Internal Controls Recommended, Vehicle Licensing System, Ministry of Transportation and Communications	2.24	68
Weaknesses in Agents' Direct Deposit System, Ministry of Transportation and Communications .	2.25	71
Expenditure of Royal Commissions	2.26	72
Expenditure of Select Committees	2.27	73

COMMENTS ON CROWN AGENCY OPERATIONS

Introductory Comments	3.1	74
Newly Established Crown Agencies	3.2	74

	SECTION	PAGE
Inactive Crown Agencies	3.3	75
Subsidiaries of Crown Agencies	3.4	75
Improvements in Monitoring of Loans Recommended, Eastern and Northern Ontario Development Corporations	3.5	76
Administrative Deficiencies, Liquor Licence Board . .	3.6	77
Review of Selected Operational Matters, Ontario Economic Council	3.7	81
Improvements in Administration of Mortgages Recommended, Ontario Junior Farmer Establishment Loan Corporation	3.8	84
Prevailing Weakness in Purchasing System, Ontario Northland Transportation Commission	3.9	85
Potential Unrecorded Revenue, Ontario Place Corporation	3.10	86
Deficiencies in Control and Disposal of Salvaged Goods, Star Transfer Limited	3.11	87
Improved Internal and Administrative Controls Recommended, Urban Transportation Development Corporation Ltd.	3.12	89

PUBLIC ACCOUNTS OF THE PROVINCE

Preparation of the Public Accounts	4.1	91
Financial Statements of the Province	4.2	91
Summary of Significant Accounting Policies	4.3	92
Advances and Loans Repayable from Annual Expenditure Appropriations	4.4	93
Investments in Water Treatment and Waste Control Facilities	4.5	94
Payments out of the Consolidated Revenue Fund	4.6	95
Voted Appropriations—Comparison of Authorized and Actual Payments	4.7	96
Statutory Appropriations	4.8	97
Statement of Budgetary Expenditure	4.9	98
Management Board Orders	4.10	100
Special Warrants	4.11	101
Board of Internal Economy	4.12	101
Write-Off of Uncollectable Accounts	4.13	101

OFFICE OF THE PROVINCIAL AUDITOR

Primary Audit Responsibilities	5.1	103
Primary Reporting Responsibilities	5.2	104

	SECTION	PAGE
Other Audit and Reporting Matters	5.3	105
Organization and Personnel	5.4	107
Nature of Audit Activities	5.5	109
Systems to Ensure Economy, Efficiency and Effectiveness	5.6	111
Staff Training and Professional Development	5.7	112
Meeting of Legislative Auditors	5.8	113
Examination of the Accounts of the Office of the Provincial Auditor	5.9	114

ACKNOWLEDGMENTS	115
---------------------------	-----

EXHIBITS

1. Province of Ontario, Audited Financial Statements, Year Ended March 31, 1981	117
2. Management Board Orders—Amounts Authorized and Expended Thereunder during the Year Ended March 31, 1981	130
3. Statutory Appropriations—Amounts Expended Thereunder during the Year Ended March 31, 1981 Office of the Provincial Auditor:	144
4. Organization Chart	150
5. Ministry Audits and Special Reviews, Year Ended March 31, 1981	151
6. Agency of the Crown and Crown Controlled Corporation Audits, Year Ended March 31, 1981	153
7. Audited Statement of Expenditure, Year Ended March 31, 1981	156
Recommendations Contained in the Provincial Auditor's Previous Annual Reports	158
9. Status of Recommendations Contained in the Reports of the Standing Public Accounts Committee to the Legislative Assembly	161

GENERAL

1.1 Introduction. This Report has been prepared pursuant to section 12(1) of The Audit Act, which requires the Auditor's annual Report to be submitted to the Speaker of the Assembly not later than December 31st each year, provided that the Public Accounts have previously been laid before the Assembly.

The audit and reporting responsibilities of the Provincial Auditor, as set out in the Act, are explained in detail in Chapter 5 of this Report.

1.2 Timetable for Preparation and Submission of Annual Report. To comply with section 12(1) of the Act, and to allow the required time for the preparation and printing process, our annual Reports cover audits completed to the end of September. This Report, therefore, covers audit activity through the twelve month period from October 1980 to September 1981.

1.3 Exception Basis of Reporting. When reading a Report of this nature, it is important to recognize that it is, in many respects, a Report by exception. Its purpose is to bring to the attention of the Legislative Assembly those matters which have been observed and are considered significant.

Reporting in this manner may unduly emphasize deficiencies without giving credit for the many circumstances in which no significant irregularities were observed. Indeed, several audits of Ministries and agencies of the Crown conducted during the past year disclosed no matters of major significance to be reported. With certain other audits, although weaknesses and deficiencies were reported on, the program activities and systems reviewed, when taken as a whole, were found to be generally well controlled.

The Office gratefully acknowledges the co-operation and assistance extended by management and staff of Ministries and agencies to our auditors during the course of their work. Furthermore, in accordance with section 12(2)(a) of the Act, we are pleased to report that we received all the information and explanations required in carrying on the work of the Office.

1.4 Communication of Audit Observations. At the conclusion of audits, formal meetings are held to review and discuss written drafts of audit findings and recommendations. These meetings are attended by Audit Office representatives and senior financial and other management officials of the auditee. The principal purposes of such meetings are to ensure that management is fully apprised of all matters arising from the audit, to discuss the proposed recommendations for corrective action and to provide an opportunity for management to question the position taken by this Office or to initiate immediate corrective action.

Subsequently, all significant audit observations and recommendations are incorporated into a formal report from the Provincial Auditor to the appropriate Ministry or agency of the Crown. In the case of Ministries, these reports are sent to the Deputy Ministers. In the case of agencies, the reports are sent to the governing board of the agencies and to the responsible Ministers. In all cases, the Ministries/agencies are asked to review the reports and to forward their comments on our findings and recommendations.

Matters raised in the foregoing reports which, in our judgment, are of interest or significance to the Legislative Assembly are included in the following two chapters of this Report. In cases where replies have been received to our findings and recommendations, the relevant portions are included for informational purposes, generally without further comment by this Office.

As a result of printing deadlines, as covered in section 1.2, it is not possible to include any replies received subsequent to September 30 in this Report. However, all such replies are forwarded by this Office to the Standing Public Accounts Committee of the Legislature after this Report has been tabled.

It should be noted that, in the case of Crown controlled corporations which are audited by other auditors, section 9(3) of The Audit Act requires such auditors to provide this Office with a copy of the audited financial statements together with a copy of the report of their findings and recommendations to management. As is the case with Ministries and agencies of the Crown, matters raised in such reports may also be included in this Report. Definitions of agencies of the Crown and Crown controlled corporations are contained in Chapter 5.

1.5 Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports. It is our practice to follow up on the status of suggested corrective action and recommendations at the time of our next audit of each Ministry or agency of the Crown. The status of suggested corrective action and recommendations contained in our 1979-80 Report is indicated in Exhibit 8 of this Report. Exhibit 8 also provides an update on the status of corrective action and recommendations considered unresolved per Exhibit 7 of our 1979-80 Report.

1.6 The Standing Public Accounts Committee. Standing Order 91 of the Legislative Assembly requires that the Report of the Provincial Auditor and the Public Accounts be referred to the Standing Public Accounts Committee as they become available. This Committee, which is appointed for the life of each Parliament, currently consists of twelve members, with party membership proportional to the respective party membership in the Legislature. As has been the case since 1968, the Chairman is a member of the Official Opposition Party.

The Public Accounts Committee plays an important role in the process of accountability for public funds by focusing attention on areas of concern to the

Legislative Assembly and to the public. The Committee provides the forum to which officials of ministries and agencies may be called to account for the legality and prudence of government expenditures and the establishment of proper administrative policies and procedures.

Reference was made in our 1979-80 Report (section 1.4) to the activities of the Standing Public Accounts Committee during the Third and Fourth Sessions of the Thirty-First Parliament, up to the time of the Committee's meetings from August 25 to 27, 1980 dealing with matters related to land assembly projects.

Upon the return of the Legislature from the summer recess in the fall of 1980, the Committee resumed its activities. Seven meetings were held during the months of October to December 1980. The Committee submitted its final report for 1980 on December 9, 1980, prior to the proroguing of the Legislature on December 12, 1980. The Committee's activities terminated when the Legislature was dissolved on February 2, 1981.

A new Standing Public Accounts Committee was constituted for the First Session of the Thirty-Second Parliament which commenced on April 21, 1981. The Committee held seven meetings during May and June prior to adjournment of the Assembly on July 3, 1981 for the summer recess.

1.7 Recommendations of the Standing Public Accounts Committee. For informational purposes, Exhibit 9 of this Report provides the current status of recommendations contained in all Reports of the Standing Public Accounts Committee to the Legislature from July 10, 1975 to December 20, 1979, to the extent that such recommendations were considered unresolved by the Ministry or Agency per Exhibit 8 of our 1979-80 Report. Exhibit 9 also summarizes the current status of all recommendations contained in the Committee's December 9, 1980 Report to the Legislature.

With regard to the preceding, it should be noted that although certain Committee recommendations have been asterisked as being considered resolved per Exhibit 9, this does not necessarily mean that the recommendations have been resolved to the Committee's satisfaction. For example, in the case of Health Service Organizations, the Committee's December 9, 1980 Report recommended that the Ministry of Health "undertake to recover payments made in error for individuals improperly on rosters, retroactive to the time when the actual ineligibility began". Examples of situations giving rise to such retroactive recovery would be the death of a roster member or a roster member moving to another locale.

At the June 4, 1981 Committee meeting, in response to this recommendation, the Ministry's position was that "the solution to the problem of inappropriate payment is rigorous roster monitoring. Retroactive recovery is seen to be unfair in principle due to the concept of the insurance mode under which payment is made."

Hence, as far as the Ministry is concerned, the Committee's recommendation is resolved; however, the manner in which it has been resolved may or may not be satisfactory to the Committee.

1.8 Public Accounts Committees and Legislative Auditors. The Canadian Comprehensive Auditing Foundation was established in 1980 to promote the concept of value for money in expenditures of governments and publicly funded bodies. In September 1981, the Foundation issued a report entitled "Improving Accountability—Canadian Public Accounts Committees and Legislative Auditors." The report provides detailed, comparative descriptions of the characteristics and operations of Public Accounts Committees and legislative auditors at both the federal and provincial levels in Canada and makes recommendations for the general adoption of useful features found in the various jurisdictions.

We note that the majority of the report's recommendations are presently being practiced in Ontario. However, we also believe it would be useful for the Ontario Standing Public Accounts Committee to schedule one of its meetings for the purpose of reviewing the report in detail.

1.9 Management Board Initiatives for Improved Management Practices. During the past year, the Management Board Secretariat has devoted considerable time to the development and implementation of three major initiatives designed to improve the quality of the overall management processes within the government—the Management Standards Project, Managing by Results (MBR) and Internal Auditing.

Each of these initiatives will undoubtedly assist this Office in carrying out our responsibilities under The Audit Act, especially insofar as economy, efficiency and procedures to measure effectiveness are concerned. Additionally, we believe that a significant factor which should contribute to the desired success and acceptability of these initiatives is the fact that, in addition to the Secretariat, personnel from various Ministries have been deeply involved in the development thereof. A summary of each of the initiatives is contained in the following paragraphs.

MANAGEMENT STANDARDS PROJECT

The Management Standards Project was approved by Management Board and Cabinet in March 1980. Its purpose is to lay the groundwork for improving management in the Ontario Public Service over the next decade by:

- Establishing a basic framework for managing in the 1980's;
- Setting standards for the quality of management in the 1980's;
- Ensuring the major problem areas in management are defined and addressed.

The main product of the project will be a series of publications documenting a consistent set of management principles, terms, processes, practices and standards available for use by all government managers. The publications will be grouped into three series—Overview, Process and Support.

The Overview Series will provide an overview of management in the Ontario Public Service and set the stage for the Process and Support Series. The Process Series will be organized under the following functions of management:

- Evaluate and Set Direction
- Plan and Allocate
- Organize and Staff
- Motivate and Direct
- Monitor and Maintain Direction

Management processes to carry out each of these functions will be described and standards set. The Support Series will be organized under the same five headings as the Process Series and will be grouped according to whether they are guidelines, examples of processes or specific techniques which can be used in carrying out the process.

This Office is particularly interested in the Process and Support Series since they will provide us with the necessary criteria for assessing the quality of the government's management of the Province's resources.

MANAGING BY RESULTS (MBR)

In section 1.6 of our 1979-80 Report we noted that the draft plan for improvement of MBR in the Ontario Government would be reviewed by an inter-ministry task force before its submission to Management Board.

On February 3, 1981 Management Board reviewed the report of the task force and approved the proposed improvement plan on the understanding that implementation is to be completed within two years. The Secretariat was authorized to proceed with implementation, including the formation of an MBR support team.

The support team (MBR Improvement Project) has been established at the Secretariat to work with ministries on their MBR improvement plans. In addition, guidelines for preparing abstracts and reporting to Management Board have been issued.

All aspects of the MBR improvement plan are to be carefully coordinated with the Management Standards Project.

INTERNAL AUDITING

In January 1980 our Office initiated an in-depth review of internal audit operations across the government of Ontario. The primary objectives of this re-

view were to determine the extent to which we could rely on the internal audit process and to assess the effectiveness of internal audit.

The findings and recommendations resulting from our review were fully outlined in chapter 4 of our 1979-80 Report. On balance, we concluded that the Office could not rely on the overall internal audit process. From the standpoint of mandate, terms of reference, and the planning and reporting processes, we found that, generally speaking, the internal audit function was deficient. It was also our opinion that, again on balance, internal audit was not effective, since Deputy Ministers/Agency Heads were not receiving overall evaluations and assurances about the major operations of their Ministries/Agencies.

Concurrent with our review, Management Board approved, on May 6, 1980, the formation of an inter-ministry Task Force on Audit Policy to review the role of internal audit in the Ontario government. The Task Force completed its assignment and issued its Report in December, 1980. The recommendations contained in the Report were approved by Management Board and ratified by the Cabinet.

These recommendations addressed our stated concerns, calling for the scope of internal auditing in each Ministry to be comprehensive in nature, encompassing both the financial control and management control processes. Additionally, chapter 5 of the Report dealt with the setting of standards for internal audit branches, including standards for terms of reference, performance of audit work, and the planning and reporting processes.

Subsequent to the release of the Task Force Report, the Management Board Secretariat, in close cooperation with the Ministry of Treasury and Economics, has been providing support and coordination insofar as implementation of the recommendations is concerned. This support and coordination includes the periodic review of progress with audit and other personnel of the Ministries.

As part of the Management Standards Project, the Secretariat has recently issued a brochure on Internal Auditing, and will shortly be releasing a booklet on The Internal Audit Process.

COMMENTS ON MINISTRY OPERATIONS

2.1 Introductory Comments. Most of the comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ongoing Ministry audits and special reviews. The audits on which the comments are based were completed since the date of our last Report and are listed in Exhibit 5.

2.2 Recommendations for Improvements in Compiling and Reporting Results and for Improved Economy, Ministry of Agriculture and Food. The following observations and recommendations resulted from our most recent audit of the Ministry of Agriculture and Food.

A) EXPORT PROGRAM—MONITORING OF EFFECTIVENESS

The objective of the Ministry's Export Program is to expand and develop foreign markets for Ontario-produced agricultural and food products. The program is comprised primarily of export missions to other countries, incoming buyers' missions from other countries, trade shows, and processing of inquiries. The planned results for 1980-81 included an increase in export sales of \$25 million resulting from missions.

In our review of the Management by Results (MBR) process, we examined reports on missions by Market Development Officers, which contained information such as products involved, estimated sales resulting from the mission, observations and conclusions. These reports are therefore essential for evaluating the success of the program. We noted, however, that not all reports on incoming buyers' missions contained this information, there being no standard format or reporting requirements. We also noted that no reports were prepared on several incoming buyers' missions in 1979-80. Consequently, we recommended that the reporting requirements of the program be reviewed and more formalized procedures instituted.

B) MBR PROCESS—COLLEGES OF AGRICULTURAL TECHNOLOGY

The Ministry operates four Colleges of Agricultural Technology (in addition to the Ontario Agricultural College at the University of Guelph), which have a combined enrollment of approximately 870. Actual expenditures for the 1979-80 fiscal year totalled \$3.4 million, with expenditures for 1980-81 being estimated at \$4.8 million.

Each College outlines the objectives of its programs in a Management by Results (MBR) submission. We noted that the criteria by which effectiveness is evaluated varies among the Colleges, and includes such measures as number of admissions, number of students graduating, attendance, total credit hours offered,

etc. Various measures of efficiency are also employed, with only one College utilizing student/instructor ratio as a measure. Since their educational programs are similar, we recommended greater uniformity in the MBR's, to enable comparisons to be made and to ensure effective monitoring of actual results.

C) FOOD COSTS—COLLEGES OF AGRICULTURAL TECHNOLOGY

Each College (except the Ontario Agricultural College at the University of Guelph) engages a caterer to provide meals on-campus to students. Students are charged in accordance with an annual rate schedule which is applicable to all colleges. At the present level of rates the Ministry subsidizes students for the excess of meal costs over revenue.

From our review of the records of the Ridgetown College of Agricultural Technology, which has a student population of 369, we estimated that meal costs would exceed revenue by approximately \$66,000 in the 1980-81 school year. This excess represents approximately 35 per cent of annual food costs. On the other hand, we understood that food services at the University of Guelph are provided on a cost recovery basis.

The policy on establishment of rates for services is outlined in section 10 of the Ontario Manual of Administration. Although exceptions are provided, in general, charges should recover at least the total cost, including overhead costs, of providing the service. We therefore recommended that the schedule of meal charges be reviewed to ensure that it complies with this policy.

On June 19, 1981 the Ministry commented as follows:

- A) *"A new record-keeping system has been instituted and should overcome the previous weaknesses."*
- B) *"We are working toward preparing these on a more consistent basis."*
- C) *"Section 10 of the Ontario Manual of Administration refers to direct services to the public and it is our policy to charge members of the public the full cost for dining at one of our colleges. Historically, we have set the rate for student meals at approximately 2/3 cost and review this annually to ensure the level is maintained. Thus, the 35% excessive cost over revenue stated in your report would be about correct, according to our policy."*

2.3 Limousine Services, Ministry of the Attorney General. During the period April 1979 to March 1980 approximately \$104,000 was paid to an automobile livery for limousine service. We understood that these charges were for transporting Supreme Court judges to and from their residence to the Court House. Our examination of documents supporting these expenses revealed the following:

1. Invoices with respect to payments totalling approximately \$49,000 were received, checked and paid by the Finance and Services Branch of the

Ministry and charged to the individual judge's travel accounts.

2. The Finance and Services Branch also made payments totalling approximately \$55,000 based on lump sum amounts shown on supplier's invoices and approved by an official of the Ministry. Details and receipts for these charges were not provided nor were they included in the individual judge's travel accounts.

Our review indicated that there is no specific authority for the payment of limousine service for judges discharging their ordinary duties. In response to a comment regarding such service in a previous audit memorandum, the Ministry stated that:

"Transportation is provided to Trial Division Judges because it is not deemed appropriate that judges during the course of a trial should have to resort to public transportation which could lead to embarrassing situations of the judges being confronted either by jurors, witnesses or even possibly by the accused . . . this affords a degree of security and protection to the members of the Bench."

While we could not disagree with the rationale for providing such a service to the judges, we felt the cost should not be borne by the Ministry without specific authority.

We understand that charges for transporting judges between their residence and place of employment are a taxable benefit under the Income Tax Act (Canada). We noted, however, that the Ministry has not prepared T4 slips for such judges' benefits.

The preceding comments were included in our memorandum dated May 21, 1981 to the Ministry. We have no record of a reply as at September 30, 1981, the date of this Report. We are therefore unable to present the Ministry's views on the subject matter.

2.4 Operations of Small Claims Courts, Ministry of the Attorney General. Small Claims Courts can decide claims up to \$1,000 exclusive of interest under The Small Claims Courts Act. The Provincial Court (Civil Division) Project Act came into force in its entirety on June 30, 1980 and is to be repealed on January 1, 1983. Under this latter Act, Provincial Courts can decide claims up to \$3,000 within Metropolitan Toronto.

FEE STRUCTURE

There are at present approximately 125 Small Claims Courts located in about 48 judicial districts or counties across the Province. These courts, with a few exceptions, have their own administrative offices and support staff independent of the Ministry. The clerks and bailiffs of these courts maintain their offices as a form of private enterprise. These courts charge "Tariff of Fees" to litigants according to the Regulations under the Acts. Based on a percentage of the gross fees

as specified by the Regulations, these officials of the court receive allowances or remit surplus fees.

In the calendar year 1979, only 8 of about 170 officials had surplus fees to remit to the Ministry. These fees totalled approximately \$75,000. Most of the remaining officials were supported by allowances amounting to approximately \$560,000 in the fiscal year 1979-80. It is apparent that fees charged to litigants are too low to cover the operating costs.

If the Ministry intends to cover the cost of operating these courts from fees charged, we recommended a review of the fee structure be made in light of the current and anticipated revenues, allowances and expenditures of these operations. This recommendation is particularly significant in respect of the nine Small Claims Courts with special financial arrangements mentioned subsequently.

SURPLUS FEES RECEIVABLE

As of September 30, 1980, accounts receivable totalling \$115,500 were outstanding from the officials of the courts who were to remit surplus fees. Our review of these accounts indicated that of this total \$73,500 may not be collectible, \$46,500 of which has been outstanding since 1976. We recommended that special efforts be made to recover these accounts.

SPECIAL FINANCIAL ARRANGEMENTS

The Ministry has entered into special financial arrangements with nine Small Claims Courts whereby the clerks of these courts operate on a "salary basis" and pay to the Treasurer of Ontario the excess of fees over their salaries and operating expenses, rather than a percentage of the gross fees as required by Regulations for the other courts. "Salary basis" means that each clerk of these nine courts is guaranteed a fixed sum annually by the Ministry. There is no legislative provision for these courts to operate under special financial arrangements.

We made similar comments in 1976 and 1977 audit memoranda. The Ministry's response on November 24, 1977 stated in part,

"An attempt was made to provide within Regulation 802 designated courts to operate under special arrangements. The Registrar of Regulations advised that The Small Claims Courts Act would have to be amended to implement the necessary special provisions. This matter is under further consideration."

At the termination of our audit review in December 1980, this situation remained unchanged. Although The Provincial Court (Civil Division) Project Act came into force subsequent to the preceding response, no provision was made for the operation of these courts under special financial arrangements.

If these nine courts had continued to operate in accordance with the provisions of the Act and Regulations, as applied to other Courts, instead of under the

special financial arrangements, the Ministry could have collected additional surplus fees averaging about \$500,000 per annum.

The preceding comments were included in our May 21, 1981 memorandum to the Ministry. Since we have no record of a reply as at September 30, 1981, the date of this Report, we are unable to present the Ministry's views on the matters raised.

2.5 Questionable Practices, Ministry of the Attorney General. The ensuing two situations were brought to the Ministry's attention in a recent memorandum.

LEASING OF AUTOMOBILES

We noted that a contract dated April 23, 1979 to lease 15 automobiles for 36 months was tendered and negotiated by an official of the Sheriff's Office in the County of York. An internal audit report dated January 17, 1977 indicated that an earlier contract to lease 24 automobiles for 30 months was not tendered and was negotiated by the same official of the Sheriff's Office in November 1975. This official had no authority to negotiate such contracts and consequently these transactions bypassed the Ministry's purchasing procedures. Both contracts were awarded to the same supplier. In each of the two contracts the supplier substituted one luxury car for one standard car leased at no extra cost. These luxury cars were used by the Ministry official who negotiated the contracts. In our opinion, the process followed in acquiring these leased automobiles was very questionable.

POSITION SPECIFICATIONS

We noted the duties of an employee are not in accordance with the "Position Specifications". The employee is contracted to perform the duties of "Relief Clerk 3 General". The "Position Specifications" describe the purpose of the position as "To assist in the processing of all appeals filed in County Court Office, Judicial District of York". However, the actual duties of this employee are to shop for groceries and prepare meals for the judges.

We found it difficult to understand how the Ministry could justify the need for this clerical position when the incumbent performs completely unrelated tasks. Additionally, the Ministry pays this employee a travel allowance for regular travel between home and headquarters. This is not provided for in the Contract of Employment nor is it permitted under the travel rules of the Ontario Manual of Administration.

The foregoing comments were reported to the Ministry on May 21, 1981. As at the date of this Report, September 30, 1981, we have not received a reply and are therefore unable to present the Ministry's views on the matters raised.

2.6 Review of Staff Training Services and Staff Development Centre Activities, Civil Service Commission. The function of the Staff Development Branch

(SDB) of the Civil Service Commission is to assist employees of the Ontario Public Service to improve their performance. The responsibilities of this Branch include the Staff Training Services (STS) and Staff Development Centre (SDC) Activities.

The Staff Training Services Activity provides, on a cost recovery basis, staff development and organization development services to improve the work performance of individual employees and work teams in the Ontario Public Service. The Activity consists of 11 employees, seven of which are staff development consultants. These consultants are responsible for participating in the design and conduct of in-house courses and assisting in consulting projects which help organizational performance.

Essentially, STS offers two types of courses—general and the Vanguard Series. General courses are training and development programs open to any member of the Ontario Public Service. The Vanguard Series courses were introduced in fiscal year 1979-80 and are limited to senior managers of the Ontario Public Service. Courses are generally held at the Staff Development Centre, other residential facilities, SDB facilities at 151 Bloor Street West, and Queen's Park facilities in Toronto.

Expenditure of the STS Activity for the 1980-81 fiscal year was \$978,136.

The Staff Development Centre is located at Kempenfeldt Bay, near Barrie, and is operated by a staff of five full-time plus two part-time employees. Services such as catering, janitorial and housekeeping are contracted out.

The function of the SDC is to provide a training and meeting residential facility for seminars, courses and other meetings. The SDC has sleeping accommodations for 70 people and operates 47 weeks in the year excluding weekends and holidays. Users of the SDC include STS, ministries, boards and agencies. Accommodation rates are charged back to the users.

Expenditure of the SDC Activity for the 1980-81 fiscal year was \$364,400.

STAFF TRAINING SERVICES (STS)

Planning Process for Courses

STS is responsible for the introduction, modification or deletion of courses. We were advised that the planning process for offering courses is based on courses that were well attended during the previous years and the opinion of STS Staff development consultants regarding ministry needs. In this regard, during our discussions with ministry Staff Development Officers, we were informed that STS normally did not consult or require input from ministries whenever new training courses were designed and introduced or changes made to existing courses. These ministry Staff Development Officers indicated to us that they were only aware of new training and development courses when they were published in the CSC Staff Development Calendar. We were also advised that some STS

courses are meeting their needs. However, the Manager of STS (appointed to the position in January 1981) has recently commenced the process of consulting with the Inter-Ministry Staff Training and Development Committee before new STS courses are introduced or changes made to existing ones.

For the fiscal years 1979-80 and 1980-81, the courses planned and held were as follows:

	<i>Total courses planned</i>	<i>Total courses held</i>	<i>% of courses cancelled</i>
<i>1979-80</i>			
General courses	195	165	15
Vanguard Series	20	11	45
<i>1980-81</i>			
General courses	213	171	20
Vanguard Series	28	14	50

Our review indicated that courses were cancelled because of insufficient enrolments. In our opinion, the planning process contributed to the significant number of cancellations, since training and development needs and priorities were not identified through consultation with clients.

By way of illustration of our concern with the planning process, we observed the management development course "Telos" was introduced and offered once in the 1979-80 fiscal year. This course was scheduled to be offered four times in the 1980-81 fiscal year but had to be cancelled each time due to insufficient registration. The 1981-82 CSC Staff Development Calendar indicated that the course "Telos" is again scheduled to be offered three times during the year.

We therefore recommended that STS accelerate the development of its new system for identifying the training and development needs and priorities of ministries.

Procedures to Report on Effectiveness of Courses

Evaluation of training and development courses is a means of identifying what improvements can be made in the courses and what actions are to be taken regarding the future of these courses. For the STS to decide whether to make improvements to its training courses we felt it should be informed, where feasible, on the effectiveness of course delivery and employees' performance on the job after training as related to their performance prior to training.

Effectiveness of Course Delivery

At the conclusion of each course, STS course participants are required to give their comments on eight items, using a course evaluation form. Such items include the application of course content on the job and an overall rating (0-7) of the course. The form does not, however, include questions and ratings on specific aspects of course delivery such as course content, environment, timing, trainer's methods, group development and learning objectives.

In our discussions with the manager of STS, we were informed that consistent overall average course ratings of less than 5.5 are investigated and may result in changes to course content or instructor. Our review of these ratings for fiscal years 1979-80 and 1980-81 indicated that most courses were consistently rated in excess of 5.5. Since the course evaluation form does not include specific questions and ratings on course delivery, we felt that the STS was not receiving enough information to identify specific areas in need of improvement.

We therefore recommended that the STS redesign its course evaluation form so that comments and ratings will be received from all participants on key elements of course delivery, such as course content, environment, timing, trainer's methods, group development and learning objectives.

Effect on Employee's Job Performance

Employees requesting authorization to attend STS courses (general and Vanguard Series) are required to state in writing the results expected from attending the courses. For general courses only, results expected by the employees' managers are also stated.

Staff Development Officers of the five ministries we visited told us that managers monitor employees' performance after attendance at courses to determine whether there is an improvement in job performance, but no reports are made to the STS. Without this information, the STS has no means of determining whether the stated on-the-job results expected by the participant and manager were achieved. Consequently, STS may continue to offer and give courses which some ministries have identified as ineffective.

In 1978, the STS retained a consultant to conduct an evaluation of the effectiveness of its training and development courses. A random sample of 5 per cent of course participants (111) who took courses from April 1977 to March 1978 was selected and questionnaires were sent to the participants and their immediate supervisors. Based on the feedback provided by these questionnaires, (76 participants and 75 supervisors responded), the consultant concluded that courses offered by the STS were effective in all areas evaluated. A set of pretested computerized questionnaires was left with the STS so as to conduct future evaluations of its training courses. The present manager of STS was not aware of any subsequent use of the questionnaires. Further, he was not aware of any other evaluations of STS training courses.

Knowledge of on-the-job effectiveness of courses would provide STS with necessary information for future course planning. We therefore recommended that a system be established whereby ministries are required, where feasible, to report periodically to the STS on the extent to which expected on-the-job results have been achieved.

STAFF DEVELOPMENT CENTRE (SDC)

Utilization of the SDC

The SDC usually operates for 47 weeks in a year excluding weekends and statutory holidays. The maximum occupancy during this period is 15,960 bed days. For the past three fiscal years, the SDC planned for a utilization rate of 70 per cent of the maximum occupancy.

Bookings for bed days for STS courses are made 12 months in advance. The remaining bed days are available for use by others such as ministries, boards and agencies. The bed days booked and filled during the past three fiscal years were reported as follows:

Booked

	STS	Bed Days Booked		Bed Days Booked as % of Maximum Occupancy		
		Others	Total	STS	Others	Total
1978-79	6,280	6,885	13,165	39	43	82
1979-80	8,084	5,298	13,382	51	33	84
1980-81	7,478	5,082	12,560	47	32	79

Filled

	STS	Bed Days Filled		Bed Days Filled as % of Maximum Occupancy		
		Others	Total	STS	Others	Total
1978-79	4,845	6,448	11,293	31	40	71
1979-80	5,578	4,984	10,562	35	31	66
1980-81	5,537	4,803	10,340	35	30	65

As can be seen, for the past two years the expected occupancy of 70 per cent was not attained.

The preceding summaries indicate that a significant number of STS bookings (courses offered) were being cancelled, resulting in reduction of the use of the SDC. Course cancellations as a percentage of bookings were as follows:

	STS	Others
1978-79	23%	6%
1979-80	31%	6%
1980-81	26%	5%

These cancellations were mainly due to insufficient course enrolments. In our opinion, the factors contributing to the cancellations of planned STS courses and the general under utilization of the SDC were:

1. As previously commented on, there is no formal system for identifying the general training and development needs and priorities of ministries.

2. The established cut off time for STS course nominations is seven weeks prior to the commencement of the course. If courses are to be cancelled due to insufficient nominations, then the SDC does not have enough time to make the cancelled space available for use by others.
3. Course participants evaluating the operations of the SDC have indicated concerns with the design of the buildings, such as two persons to a room and four persons sharing a washroom.
4. In the opinion of the Director of SDB, the daily accommodation rate of \$45 per person, based on full cost recovery and the 70 per cent utilization rate, is too high by comparison with alternative accommodation available to potential SDC users.
5. Ministries tend to hold courses in regional areas rather than incurring accommodation and travel expenses for their employees to attend courses at the SDC.

We recognized that even when course needs are identified, factors such as (2), (4) and (5) above would affect the utilization of the SDC. Nevertheless, we felt the SDB should continually strive to improve on the established occupancy rate of 70 per cent. In so doing the SDC would be seen as more fully meeting its mandate of providing a training and meeting residential facility that meets the needs of the managers of the Ontario Public Service.

Inadequate Fire Protection

The SDC complex consists of seven structures, all of which are classified as combustible construction by the Safety Section, Property Management Branch, Ministry of Government Services. Current fire protection facilities include portable fire extinguishers but no fire hydrant system. In the opinion of the Director of the SDB, the lack of a fire hydrant system could result in a serious loss of property in the event of an outbreak of fire, particularly during the winter when the lake nearby is frozen and there is no automatic system for getting water to the building site.

In May 1979, the Director of SDB brought to the attention of the Safety Section of the Ministry of Government Services that the SDC complex is not served by a fire hydrant system. As a result, the Safety Section carried out a site visit and issued a report in June 1979. The report concluded that:

1. The amount of water available at the SDC complex for structural fire protection is considered inadequate.
2. Consideration be given to providing a permanent pumping facility from the lake and an underground main and fire hydrants be installed to provide adequate water supplies for structural fire protection. The Ministry of Government Services in 1979 estimated the cost for such a facility at about \$55,000.

These conclusions were made recognizing that a fire once started would spread rapidly, achieving total involvement very quickly in the combustible construction, and the impact the loss of the SDC would have on the overall Civil Service training posture.

At the completion of our audit in July 1981, we noted that the pumping facility, underground main and hydrants were not installed. For the adequate protection of the SDC investment, we recommended that steps be taken by the SDB and the Ministry of Government Services to expedite the installation of the facility.

PERFORMANCE APPRAISALS (STS and SDC)

The efficient operation of an organization is dependent upon its utilization of human resources. Efficiency of staff performance is enhanced by the use of regular performance appraisals.

Section 12-75-1 of the Ontario Manual of Administration, issued in January 1980, describes the performance appraisal process and requires that the performance of every employee be appraised regularly. Guidelines to assist in the development and implementation of performance appraisal programs are provided in section 12-75-3 of the Manual. Item 4 of the guidelines states that the performance appraisal is to be discussed with the employee at the end of the review period and, where the appraisal is written, the employee is provided with a copy.

We noted that the Manager of STS has recently drafted guidelines on the methods and criteria to be used for conducting performance appraisals of his staff. The Director of SDB advised us that these methods and criteria, though not documented previously, were used to evaluate employees' performance, although no performance appraisal forms were completed.

In our opinion, formal written appraisals tend to have a greater impact and provide a permanent record, particularly useful should there be a change in senior management. Appraisal forms are a means to ensure that a discussion between supervisor and subordinate has taken place and that certain essential considerations have been covered, both in face-to-face discussion and in a written summary. Performance appraisal processes in a number of ministries involve the completion of appraisal forms.

We therefore recommended that performance appraisal forms be developed and completed when appraisals are carried out for both STS and SDC employees. Copies of these appraisals should be placed on the respective personnel files.

The Chairman of the Civil Service Commission subsequently provided us with a preliminary response, indicating that a more comprehensive reply would be forthcoming. This preliminary response addressed the following matters:

STAFF TRAINING SERVICES (STS)

Planning Process for Courses

"We acknowledge the validity of your comments with respect to past practices in identifying the courses we offer ministries, in evaluating these courses, and in arriving at tuition costs. We also appreciate your recognition of the steps already taken to correct these at the time of your review.

"It is our intention to expand on some of these corrective actions to obtain even more significant improvements.

"Also, last winter, we became concerned that not enough consultation was taking place with ministries to determine their true needs. To remedy this, the Manager of Staff Development Services undertook to visit all ministries and talk with Heads of Training face-to-face to gather their ideas. Subsequently, because of this feedback, and as an initial step in drawing up the 1982/83 course calendar, a list of 71 possible course offerings was distributed to ministries with a request that they review the potential courses in light of ministry requirements. In addition, they were asked to suggest new course subjects and changes to existing ones. The response to these initiatives has been overwhelmingly positive."

Procedures to Report on Effectiveness of Courses

"We are . . . revising our course evaluation form to give us better data regarding the ability of the instructor and the selection of teaching procedures. Initial steps have been taken to enlist managers in measuring the pay-off to them of Staff Development Services courses. We are also trying, on an experimental basis, the use of data processing to give us up-to-date information on individual courses and the general state of revenues and expenditures.

"... we are pleased that you have included in your report the conclusion of an independent consultant that '. . . courses offered by the STS were effective in all areas evaluated.' This is gratifying in that the real pay-off in any charge-back system is that the client be satisfied."

STAFF DEVELOPMENT CENTRE (SDC)

Utilization of the SDC

"The Commission has recognized for some time now the difficulties that have existed in making effective use of the Staff Development Centre at an appropriate level of utilization. It has also been difficult to maintain an appropriate price to the ministries and our other customers under the charge-back system.

"We are now negotiating the transfer of the facility and its operation to

Georgian College. This arrangement will make it possible to use the centre for a wider range of activities and hence improve utilization and efficiency. It is proposed that Georgian College will operate the centre as a civil service training centre as well as a practical training centre for its students in hotel and tourist industry programs. The use of the centre will be provided to us at our present usage rates at prices lower than those we would have had to adopt if we were to retain it. We expect the transaction to be completed by December 4, 1981.

“The adoption of this measure, which has been endorsed in principle by the P&P Board and the Cabinet, represents the government’s attempt to resolve the issues you have raised about the operation of the Staff Development Centre. We in the Commission have been actively negotiating this transfer for over a year now and we are pleased that the negotiations are now reaching fruition. The transfer will not only resolve our problems of utilization but will also enable Georgian College to implement a program of resort management that this province needs. Under Georgian College, the operating costs of the centre will be substantially lower than those we have to incur. As part of the transfer agreement, the government will undertake to install whatever pumping/hydrant facilities are required at the centre within the next six months.”

Inadequate Fire Protection

“We wish to note that the buildings at the Staff Development Centre contain a fully modern heat-detection and fire-alarm system which is connected directly to the Stroud Police Fire Complex (seven miles/ten minutes away); that the kitchen contains automatic fire extinguishers for grease fires and that hand-held extinguishers are located throughout the building as recommended; that regular fire safety inspections are performed; that the staff receives training in fire safety/prevention; and that fire safety is a matter of continuing concern and attention.

“As noted in your report, the Ministry of Government Services has also recommended a fire hydrant system because of a concern about the adequacy of water supply for fire-fighting, particularly in winter. The Stroud Police Fire Complex has expressed reservations about this proposal both because of its cost and, more particularly, the care and time required to maintain it during the winter months, and has recommended a much simpler alternative system which, in turn, is not acceptable to the Ministry of Government Services.

“We propose to provide additional facilities for water supply after further investigation and have, in the meantime, been assured by the Stroud Police Fire Complex that with their new equipment it can pump additional water from the lake, as required, in the winter as well as

during the summer. However, in order to avoid any delay while we are investigating alternatives, we have already arranged for inclusion of the more expensive pumping system and hydrants in the minor capital program of the Ministry of Government Services, and have been advised that the design of the system is beginning immediately."

2.7 Control Deficiencies re Service Agreements, Ministry of Community and Social Services. An audit of Ministry purchase of services agreements included a review of the records of the technical coordinator of the former Children's Services Division and the documentation on agreements kept by the Accounts Branch and field offices.

We found that the list of agreements supplied to us by the technical coordinator did not include all agreements negotiated by this division. Also, we expected that technical coordinators would accumulate service costs on a project basis as recommended in section 50 of our 1978-79 Report, but this was not done on a regular and consistent basis. For example, as part of our audit we requested information on the costs of an operational review project in May 1981 but did not receive it until July 31, 1981. We understood that the Finance and Administration Division was in the process of studying the role of technical coordinators, the matter of contract recording and project control. We hoped that this study would result in improved control over agreements for the purchase of services.

The Ministry Accounts Branch is supposed to receive copies of agreements and record payments on agreement summaries to ensure that the contract amounts are not exceeded. Payments classified as Services and totalling \$38.6 million in the 1980-81 fiscal year were covered by purchase of services agreements. In the 1980-81 fiscal year, Accounts Branch processed many payments without the applicable agreements, on the authority of the Executive Director, Finance, because they applied to agencies in regular receipt of funds from the Ministry. In May 1981, Accounts Branch prepared lists of agencies funded in the 1980-81 and 1981-82 fiscal years although it did not have copies of the relevant agreements. These lists were circulated to the regional offices with a request that they forward copies of the missing agreements or inform the Accounts Branch as to the current situation if certain ones were not available.

During our visits to the various regional offices we reviewed the handling of agreements and found that in most cases the field offices had signed agreements covering the 1980-81 fiscal year which they reported they had forwarded to a head office location, but could not produce documentation identifying the intended recipients. In the case of program agreements covering the 1981-82 fiscal year, the regional offices reported that they had only received their fund allocations for that year in June 1981 and, therefore, were unable to finalize agreements with agencies concerned until receipt of this information.

Our visits to regional offices also revealed that these offices did not have a complete record of all agreements initiated within their areas. We therefore rec-

commended that an index or register be kept in each regional office listing all existing agreements and providing brief details such as period covered, date of signing and area office involved. Regional directors or their staff agreed to our recommendation since they could discern a need for such information.

We felt that a complete list of all agreements for the purchase of services is much more necessary now than in the past because of the continuing trend towards deregulation, with agreements replacing legislation.

The Ministry has since written to us to advise that:

'The Ministry has implemented a comprehensive procedure concerning the negotiation, execution and monitoring of purchase of service agreements which addresses, among other things, these particular concerns.'

2.8 Potential for Duplication of Functions, Ministry of Community and Social Services. The establishment of local children's services committees is described in the Ministry's Annual Report for the year ended March 31, 1979 as part of a plan in which decision-making and priority setting will occur at the local level. In addition, it is stated that a long term goal of the Ministry is to assist local committees in becoming responsible for decisions relating to planning, evaluation and funding of children's services in their respective areas.

As at March 31, 1981 the Ministry had established local children's services committees in five municipalities and was participating in the formation of steering groups in other municipalities which were to lead to the formation of committees. According to the records of the Ministry, expenditures in the three year period ended March 31, 1981 amounted to \$906,000 for five local children's services committees and \$711,000 largely for the steering groups, for a total of \$1,617,000.

The local children's services committees are to proceed through three phases of growth with the final phase having the committee assume responsibility for the provision of a full range of children's services within its area, including the allocation of funding to the agencies or individuals involved. Four of the committees are presently in phase two and the fifth, a municipal model, is in phase one.

We carried out an inspection audit of one local children's services committee to gain first hand knowledge of the work done by these committees. It appeared that the tasks undertaken by them are very similar to those performed by regional area offices of the Ministry. This indicated an overlapping of functions which could increase. We understood it was not the Ministry's intention to develop steering groups as local children's services committees. Also, we noted that steering groups have yet to be established in many areas of Ontario which are not served by local committees. Accordingly, we were in some doubt as to the Ministry's policy with respect to steering groups.

We were subsequently notified by the Ministry that:

"The five local children's services committees and the initiating steering groups in certain other municipalities are prototypes only and the Ministry is currently evaluating this concept."

2.9 Deficiencies in Lotteries Branch Reporting System, Ministry of Consumer and Commercial Relations. As a result of our most recent audit of the Ministry, we concluded that the reporting system in the Lotteries Branch was inadequate, in that established policies, procedures and legislation were not being adhered to. Our observations and recommendations supporting this conclusion were as follows:

—Order in Council #416/77, as amended by Order in Council #2546/77, states that:

- “(a) The amount expended, exclusive of prizes awarded, in the conduct and management of any lottery scheme, other than a bingo lottery where the prize structure does not exceed seven hundred and fifty dollars, shall not exceed 15 per cent of the gross receipts derived therefrom; and
- (b) No less than 20 per cent of the gross receipts of any lottery scheme shall be used for charitable or religious purposes.”

In section 51 of our March 31, 1978 Report we commented that the majority of bingo licences issued during a six month period to June 30, 1977, had failed to meet one or both of the criteria set out in the above mentioned Order in Council. In its response dated July 27, 1978, the Ministry advised that a statistical review would be made and legislation amended if necessary.

Our current audit of provincially licenced events revealed that the situation had deteriorated even further. Of the 54 regular bingos licenced in 1979, with gross receipts totalling in excess of \$16 million, there were 52 events (96.3 per cent) which did not meet one or both of the conditions specified in Order in Council #416/77, as amended. For the 52 licences, the percentage of gross receipts used for charitable or religious purposes ranged from nil to 46.6 per cent, averaging 17.6 per cent. Expenses incurred ranged from 6.6 per cent to 38.5 per cent, averaging 20.7 per cent.

—“Monte Carlo Event Report Form MC-R” requires that the report must be filed with the Lotteries Branch not later than 30 days after the holding of the event. Our examination of files pertaining to Monte Carlo events revealed that a number of organizations had not filed any such reports.

To ensure adherence to terms and conditions of licences issued, we recommended that the Branch obtain and review all reports.

—Order in Council #274/70, as amended by Order in Council #2639/73, outlines the terms and conditions under which municipalities may licence lotteries for charitable and religious purposes. The Lotteries Branch receives a copy of every municipal licence issued.

In 1979, 96 per cent of the lottery events in Ontario were licenced by municipalities. To ensure adherence to stipulated terms and conditions, the Lotteries Branch should require municipalities to submit periodic reports on the results of municipally-licenced events. This would also enable the Branch to keep statistics on the results of all lotteries licenced in the Province of Ontario and possibly highlight events which should be inspected by the Branch.

—The Lotteries Branch had not been audited by the Ministry's internal audit department since 1973. At the time of our review, there were no plans to audit the Branch in the near future.

Although the Branch is relatively small, it is very much in the public eye. Accordingly, we recommended that it be audited by the internal auditors on a regular basis.

On August 11, 1981, the Deputy Minister replied as follows:

Order in Council #416/77 as amended by

Order in Council #2546/77

"Subsequent to your audit report dated June 30, 1978, the Director, Lotteries Branch, has been continually reviewing the results of all bingo lotteries. This included the circumstances which have resulted in the non-compliance to the required limits for expenses and revenues by individual licencees. Concerted efforts have been made to encourage bingo licencees to improve their operations and maintain acceptable standards. However, it was found that during this period of time, administrative costs (i.e., rental) increased significantly without a corresponding increase in the fees charged. In addition, the volume of players did not increase proportionately to offset the additional costs. As a result, during 1979, 23 provincially licenced groups closed their bingo operations. It appears that this trend will continue.

"It seems, therefore, that it may now be necessary to amend the Order in Council. This is currently being reviewed and will be appropriately amended to ensure that lottery schemes are encouraged. Reasonable limits, while still maintaining an appropriate disciplinary effect, will be established for both management expenses and revenue to be used for charitable or religious purposes."

Monte Carlo Events

"Monte Carlo Event Reports were received from about 75% of the licenced groups. Existing procedures have been revised to provide assurance that all reports are received and subsequently reviewed by Branch staff."

Order in Council #274/70 as amended by

Order in Council #2639/73

"The Lotteries Branch Director has been extensively involved with Municipal officials through informal communications and meetings to ensure that they are complying with the licencing terms and conditions. However, this process will shortly be formalized to provide a meaningful reporting system without excessive paperwork."

Internal Audit

"An internal audit of this Branch is planned for the current fiscal year."

2.10 Allocation of Probation Officers, Ministry of Correctional Services. According to Ministry statistics, the total number of cases under probation and parole supervision throughout the 1980-81 fiscal year was 62,190 (probation) and 2,808 (parole). Probation officers are allocated to various area offices under an area manager. No specific formula is used by the Ministry as a basis for allocating officers to these offices.

A review of the latest statistical information available for four area offices, covering the period January to April 30, 1981 per Ministry workload summaries revealed the following:

	Offices			
	1	2	3	4
No. of Probation/Parole Officers	8	9	12	12
Average No. of Active Cases on hand	650	497	486	739
Average No. of Inactive Cases on hand	160	112	151	189
Average No. of Client/Call Interviews	690	556	655	941
Average No. of Reports	35	47	66	109

Although probation officers generally felt that their caseloads were high, in one office (#2), staff indicated having a fairly light caseload.

The preceding statistics indicated that the workloads in the area offices 1 and 4 were significantly heavier than those in offices 2 and 3 respectively. This workload imbalance may also exist in other offices.

We recommended that probation management consider the feasibility of allocating officers to area offices on the basis of a systematic formula. For example, a formula could be developed to include factors such as: area population, previous caseload history, present caseload and future forecasts. The allocation of officers on this basis would provide a more efficient utilization of probation officers and help even out the workload.

The foregoing comments were transmitted to the Ministry on September 24, 1981. The Ministry has not had an opportunity to respond and we are, therefore, unable to present its views on our recommendation.

2.11 Lack of Due Regard for Economy, Ministry of Energy. The Ministry launched and completed the Ontario Energy Savers Tune-Up Program during July

to September 1980. It incurred expenditures totalling approximately \$60,000 in the 1980-81 fiscal year. In our opinion, the objectives of the program, and results subsequently drawn therefrom, were very similar to a program called "Operation Tune-Up" carried out by the Department of Energy, Mines and Resources, Canada, in 1979. Results were published by the Department in a publication called "The Car Economy Book". This book was widely issued to the public free of charge along with various other pamphlets. Under the circumstances, the rationale for duplicating efforts and expenditures by Ontario was questionable.

The preceding comments were reported to the Ministry on June 12, 1981. Since we have not received a reply as at September 30, 1981, the date of this Report, we are unable to present the Ministry's views on this matter.

2.12 Management Control Deficiencies re Word Processing Centre, Ministry of Energy. The Ministry purchased word processing equipment at a total cost of approximately \$102,000 during the two fiscal years 1978-79 and 1979-80. In addition, an amount of approximately \$85,000 was paid to consultants in the two fiscal years 1977-78 and 1978-79:

- (a) consulting services to perform a feasibility study to determine the Ministry's needs to maximize efficiency and productivity of its support personnel by introducing modern management methods and developing or improving systems and procedures in all areas of correspondence management; and
- (b) on-site implementation of their recommendations.

Of the above costs, an amount of \$25,000 was paid to the consultants to perform a feasibility study in accordance with a Letter of Agreement dated November 10, 1977. However, the balance of the costs of \$60,000 which we understood was for the on-site implementation of their recommendations, was not supported by a contract.

The Letter of Agreement of November 10, 1977 outlined several objectives and tasks. We noted, however, that not all the tasks were carried out by the consultants in that there was no indication of any adequate cost benefit analysis having been done nor an assessment of organizational and equipment alternatives and their implementation (such as: lease vs. purchase, use of a typing pool, etc.).

The statistics of the Word Processing Centre are recorded on a weekly log sheet, commonly referred to within the Ministry as the Productivity Record Form, which is maintained in the Ministry's Administration Section. However, we found no evidence to indicate that these statistics were compared to the output standards established in the feasibility study. Consequently, the Administration Section has been unaware of the degree or level of efficiency at which the Word Processing Centre is operating. Additionally, we were given to understand from the Administrative Officer that the statistics on the Productivity Record Form did not clearly specify all the functions performed and were thus incomplete. However, he did not elaborate to what extent the forms were incomplete.

Nevertheless, a test was carried out by us using the information on the Productivity Record Form. We compared actual line output per man day for a selected seven-month period to August 1, 1980 against the minimum required standard of 1,000 lines per man day set in the feasibility study. We concluded that the Word Processing Centre was operating at a 24 to 55 per cent efficiency.

A second test was carried out to compare the productivity of the Word Processing Centre to the previous typing arrangements, i.e. the use of electric typewriters. Appendix B to the feasibility study indicated that the average lines typed using electric typewriters was 92 lines per hour. However, the executive summary in the feasibility study indicated that this was considered to be a low level of productivity because of various interruptions such as priority conflicts, lack of supervision, training, coordination, heavy telephone workload and other tasks.

We compared actual line output for the selected seven-month period to August 1, 1980 against the standard of 92 lines per hour. We concluded that the Word Processing Centre typed an average of 66 lines per hour, representing a decrease in productivity of over 25 per cent when compared to the manual operation.

We therefore recommended that:

- (a) The Ministry investigate the reasons for the decreased productivity and ensure full use of the word processing equipment is made; and
- (b) devise a system that would regularly and adequately monitor efficiency.

We noted with interest that an operational review report was issued by an external consulting group in December 1980. This report recommended that additional word processing equipment was required to meet the needs of the Ministry's Communications Group. A purchase order totalling approximately \$100,000 was issued on January 9, 1981 to the same supplier as the earlier equipment. In view of our preceding comments on the current performance of the existing Word Processing Centre, which is also used by the Communications Services Section, we found it difficult to understand the need for additional equipment.

The preceding comments were included in our memorandum of June 12, 1981 to the Ministry. As at September 30, 1981, the date of this Report, we have no record of a reply, and are therefore unable to present the Ministry's views regarding this subject.

2.13 Non-Compliance with Procedures and Other Matters re Purchase of Consulting Services, Ministry of Energy. During an audit of the Ministry, we found considerable evidence of non-compliance with established procedures for the purchase of consulting services. From a sample of 20 fee for service consultants selected for review, the following deficiencies were noted:

- In 12 instances, we found no evidence of either competitive selection or prior approval from Management Board of Cabinet for an exemption from

tendering as required by the Ontario Manuals of Administration and Supply. In 9 of these instances, contracts were awarded for management consulting, systems development and communication services, exceeding \$15,000. In the other 3 instances, contracts were for communication services between \$5,000 and \$15,000.

- In one instance, an original contract awarded for management consulting services was estimated to cost \$40,000. The contract was amended and increased to \$117,000 in the following stages:

	\$
—Original contract, dated February 2, 1979	40,000
—First amendment, March 16, 1979	105,000
—Second amendment, March 14, 1980	117,000

Actual payments to completion of the contract in May 1980 totalled \$115,000. Again, we found no evidence of either competitive selection or prior approval from Management Board of Cabinet for an exemption from tendering. In our opinion, specific Management Board approval should have been obtained when it was known that the estimated total cost of the project would exceed \$100,000, as required by the Ontario Manual of Administration.

- We found no evidence of prior written approval from the Deputy Minister for exemption from competitive selection in any of the preceding 13 instances.

Additional observations resulting from our review were as follows:

1. A consultant who, we understood, had been performing a study of Ministry records and systems management since April 1, 1980, was doing so without a formal written contract. Payments to completion of our field work totalled \$22,200.
2. At the end of their contracts on March 31, 1979 and May 4, 1979, two unclassified staff were earning \$46 and \$69 per day respectively. These persons were immediately rehired as consultants at \$73 (subsequently increased to \$90 on November 22, 1979 and \$93 on March 21, 1980) and \$100 (increased to \$104 on March 21, 1980) per day respectively to do basically the same job. These consultants, we understood, occupied the Ministry's premises and used the facilities and stationery, etc., of the Ministry. We found no evidence that the Ministry had made efforts to renew their contracts as unclassified staff before opting to hire them as consultants at substantially higher rates to perform basically the same work.

The foregoing comments were reported to the Ministry on June 12, 1981. Since we have no record of a reply as at September 30, 1981, the date of this Report, we are unable to present the Ministry's views on the subject matter.

2.14 Disposition of Parkway Belt West-Related Lands, Ministry of Government Services. Section 60 of our March 31, 1979 Report contained recommendations for improvements in Ministry controls and records relating to the Parkway Belt West land acquisitions. We found considerable improvement in this area during our most recent audit of the Ministry. During this audit, we reviewed the status of surplus land in the Parkway Belt West area.

It was our understanding that lands outside the Parkway Belt West or in the complementary use category were to remain in or be returned to the private sector. According to a Ministry Parkway Belt West status report as at March 31, 1979, surplus land held amounted to 5,246 acres. We were concerned that the sale of this surplus land, which appeared to be the responsibility of the Ministry, was being impeded. Our concern was based upon procedures which require a form of consent from members of the formerly active Parkway Belt West Planning Group and/or the Ministry of Transportation and Communications. These procedures are time consuming and, since members of either of the preceding groups may suggest additional requirements, the sales plan of the Ministry of Government Services for certain parcels of land is halted. Also, we concluded that, due to this, no reliable inventory of surplus land available for disposal can be assembled.

We recommended that the Ministry write to all pertinent Ministries and agencies requesting that they expedite their detailed design requirements immediately. This would disclose which lands are for complementary use and which are outside the Parkway Belt West so that a sales program would proceed. Land required for Ministry or agency use could then be dedicated accordingly.

On April 21, 1981, the Deputy Minister of Government Services replied as follows:

"We are pleased to note that you found considerable improvement in Ministry records.

"The Ministry of Government Services carries out its responsibilities subject to the mandate of the Ministry of Housing, which is the co-ordinating organization for Parkway Belt requirements.

"The Ministry of Transportation and Communications, which is the largest land user Ministry in the Parkway Belt, was requested to submit details of its requirements early in 1980. A schedule of general requirements has been received and the Ministry of Transportation and Communications is continuing to supply more specific information as its needs are more precisely defined."

2.15 Refinements in Contingency Plans Recommended re Government Computer Centres, Ministry of Government Services. During the past year, we completed a review of the three computer centres at Queen's Park, Downsview and Leaside regarding procedures planned for restoration to previous operating level in the event of partial or total destruction of any of the installations.

Our review included an examination of the contingency plans and related discussion with the directors of the three computer centres and with the Executive Director of the Communication and Computer Services Division (CCSD) of the Ministry.

We noted that each centre has developed its own contingency plan in conjunction with the other centres and with CCSD. We understood that these plans are subjected to continual revision. However, at the time of our review, we found that the contingency plans did not include the following:

1. APPLICATION PRIORITIES

A contingency plan should recognize that all applications and elements of a facility are not equally critical. We appreciated that there were financial as well as time constraints in attempting to fully document every application being processed in all three installations. However, we felt that it was most important to establish some form of priorities among the various applications prior to a disruption or disaster. This would facilitate the efficient implementation of a contingency plan.

There are two prerequisites to the setting of priorities: first, a decision as to who should set priorities, and secondly, the establishment of the basis on which priorities should be set. At the time of our review, steps were being taken to address these matters.

The documentation for high priority applications should include:

- (a) Back-up Files—Details of locations and contacts for all back-up files.
- (b) Transportation—Arrangements for the movement of files and forms held in off-site storage.
- (c) Output Forms—A check list of all output documents and forms used, quantity, and where stored.
- (d) Action Plan—A step-by-step action plan showing the details of operation including the personnel, hardware, software, etc.

2. TESTING

We noted that the computer centres do not make a practice of test-running sensitive applications on alternate equipment to ensure that modifications to either hardware or operating systems configuration do not impede back-up capabilities.

We were advised that one reason for this lack of testing is the anticipated cost. Under these circumstances, we felt that there should be a provision for sufficient funds to cover the cost of this important function.

We also recommended that the computer centres document the procedures for the testing of back-up facilities.

The Deputy Minister wrote to us on January 28, 1981 and advised that:

Application System Priorities

"Prioritizing of client ministries' application system is recognized by the data centres as an integral element of an effective contingency plan. A program exists in each data centre for aiding ministries in completing the structural assessment of priorities within each client ministry. Three ministries have been aided to date and their priorities have been determined. Completion of the program is scheduled for mid-1982. The individual contingency plans at the data centres will be adjusted to reflect the highest priority application systems for each ministry.

"It is realized that there is no current mechanism for the determination of application system priorities among ministries. For example, in the case of a disaster at a data centre, several top priority applications from ministries may be scheduled for processing. The designated back-up data centre could also have their own clients' top priority applications being processed at the same time.

"It is understood that the Management Technology Branch of the Management Board Secretariat is co-ordinating the matter of setting priorities among ministries' applications."

Testing

"Some test running, on an ad hoc basis, is performed with application systems that are perceived by data centres to be top priority (i.e. highly sensitive).

"Back-up testing of applications among the data centres has its real limitations, both physically and financially. The data centres operate in an environment of balancing equipment utilization, service delivery and full cost recovery. As a data centre's equipment becomes more utilized, revenues increase and service delivery levels decrease. Additional equipment in data centres dedicated to guaranteeing contingency back-up facilities would reduce utilization and impair cost recovery.

"A more ideal solution that is being investigated is to enter into an agreement with a private sector service which provides computer back-up facilities in case of contingency and also provides run testing facilities. For example, a service company . . . is now being formed in the Toronto area subject to adequate financing and having some forty data centres contracted to the service.

"In the meantime, the planning of test running will be arranged, in accordance with individual ministries' evaluation of high priority applications."

2.16 Operational Improvements Recommended re Ambulance Services Branch, Ministry of Health. During the year, we completed an audit dealing with certain aspects of the Ministry's Ambulance Services Branch (ASB). Expenditures of this Branch for the year ended March 31, 1981 amounted to approximately \$70.2 million. Our major observations and recommendations are summarized below.

VEHICLES AND EQUIPMENT

Ambulance Conversions

Vans are purchased for conversion to ambulances through the Ministry of Transportation and Communications (MTC) in accordance with the Ontario Manual of Administration, section 40-3-1. These vans are purchased from dealers within the MTC district in which the ambulance is expected to be operated. Consequently, there is a price variance in the purchase costs of these vehicles, which varied from \$8,566 to \$9,325 in March 1980 and \$9,126 to \$9,332 in June 1980. In addition to this price variance, there is an element of dealer profit in each price, which would be eliminated or lessened if ASB were allowed to order directly from the manufacturer. The tendering of van purchases in the various MTC districts does not mean that the vans will be delivered from the dealer, but are only ordered via the dealer and may be delivered directly to the MGS garage at Mimico from the manufacturer.

The deliveries of 1980 van purchases were 118 in March 1980 and 47 in May-July 1980. We noted that the first ambulance issued from these purchases was in October 1980 and that the majority of conversions to ambulances and issues did not take place until February to May 1981. We felt that deterioration of vehicles could take place when the time taken from delivery of chassis to issue of converted ambulance is unduly long. This deterioration occurred in the case of approximately 70 (1977) vehicles which were received in late 1977 but not converted and issued until 1979 and early 1980. Certain defects occurred in the brakes, battery and transmission seals which had to be inspected and repaired at a cost of approximately \$12,700.

We therefore recommended that the purchase of vans for conversion to ambulances be reviewed with the object of reducing the time span between the initial receipt of the van and issue as an ambulance, to avoid undue investment in vehicles which do not become operational for one year.

Since 1980, the colour of ambulances has been white with extensive decal striping and lettering in luminous orange tape. The luminous tape is used to make an ambulance more visible at night if it is travelling with its flashing roof lights switched off. The cost of striping one ambulance is in excess of \$300, covering material and installation. The cost of decalling pre-1980 vehicles was about \$80-

\$100. Additional costs will be incurred when the 1980 vehicles are being prepared for disposal at auction. We understood that when the striping is removed, the body paint will be marred and the van will require extensive paint work. We suggested that the branch review this more costly method of identifying ambulances as to whether its effectiveness warrants its cost.

Ambulance Service Stores—Mimico

These stores are under the control of the Ministry of Government Services and the storekeeper is an employee of that Ministry. Purchases are made and paid for by ASB, but no formal control is maintained by ASB over the inventory. The inventory records are kept by the storekeeper on a quantity basis only. A physical inventory taken at the end of March 1981 indicated a total value of \$1,200,000, of which communications equipment totalled \$740,000.

We visited the stores location in April 1981 and noted the following matters which we recommended the Ministry review for the purpose of improved accountability and control.

1. The ownership of inventory by one Ministry and its management by another contributes to reduced staff accountability by stores personnel. We recommended that the stores be directly controlled by ASB.
2. There was no control account maintained by ASB over the inventory value for comparison to the yearly physical inventory valuation.
3. There was no control over minimum reorder quantities, reordering being dependent upon physical observation by the storekeeper rather than a systematic review of inventory cards.
4. Requisitions covering the issue of stock were all made out by the storekeeper, and were prenumbered. Many of these requisitions were prepared on the basis of telephone requests and did not bear any authorizing signature.
5. The inventory was spread throughout three large rooms and the physical stacking was untidy. It is questionable whether the inventory, especially communications equipment, was adequately protected against deterioration.
6. There was no regular review of slow moving stock and assessment as to whether such stock will ever be used.
7. Certain pieces of ambulance equipment can be repaired, but there was no enforcement of broken equipment being returned to stores prior to issue of replacement.
8. Adequate records were not maintained of the quantities of equipment issued to each ambulance service. Such records would enable ASB to assess whether certain ambulance services have an unusually high usage of equipment.

We noted that much of the communications equipment has been carried in stock for a considerable period. For example, a communications system ordered in April 1979 and paid for in August/November 1979 cost approximately \$56,000. This material was still on hand at ASB stores in April 1981.

There were fifty dashmount mobile radios on hand having a value of approximately \$54,000 and we were given to understand that these radios will not be compatible with the Central Ambulance Dispatch Centre equipment. We therefore questioned investment in inventory of this nature.

Replacement Policy

During discussion with the Fleet Advisor of ASB, we ascertained that there is no written policy on replacement of ambulances. In general it has been found that vehicles need to be replaced between 120,000 and 150,000 kilometres. At this point, mechanical and body repairs begin to become uneconomical in relation to the expected life of the vehicle.

The condition of vehicles and related maintenance costs are reviewed at the time budgets are considered and approved by ASB. In addition, repair costs exceeding \$500 require prior written approval from ASB. Reviews of ambulance services by ASB inspectors include inspection of ambulances regarding their condition and road worthiness. However, there is no ongoing central monitoring of the ambulance fleet covering mileage, age, condition and related maintenance and repair costs associated with each ambulance.

We therefore recommended the Ministry's proposed central computerized vehicle control system be implemented as soon as possible in order that management may be supplied with current information on age, condition, mileage and related maintenance and repair costs for each vehicle.

Insurance

The number of ambulances in service during the years through 1979-81 has increased from 427 to 441. However, on reviewing the number of ambulances insured for the three years commencing April 1, 1979, we noted that the Ministry insured 621, 672 and 747 ambulances respectively. We understood that vehicles to be delivered during the ensuing year are insured for the full year, even though such vehicles may not be issued to an operator until near the end of that year. Vehicles sent to MTC for disposal prior to the fiscal year end are not included for insurance purposes.

We attempted to verify the accuracy of the number of ambulances insured for the 1981-82 year and computed a figure of 674 ambulances for insurance purposes. We were unable to find a reasonable explanation for the difference between our figure and the 747 ambulances shown on the insurance premium notice. We recommended that the figure of 747 ambulances for insurance purposes be reviewed for accuracy and the insurance adjusted if necessary. The difference of 73 ambulances indicated an apparent excess premium of about \$20,000.

CENTRAL AMBULANCE DISPATCH CENTRES

The ASB is presently in the process of providing Central Ambulance Dispatch Centres (CADCs) in various areas of the Province. The basic function of CADCs is that they dispatch and control a number of ambulance services, and therefore a more optimum use may be made of ambulances within a prescribed area. In addition, the Ministry believes that a more effective and efficient control will be established over the ambulance fleet as a whole. Estimated costs of about \$6 million will be incurred by the Ministry for fifteen new centres to be phased in over the next six years.

Costs and Delays

The contract for the Kitchener Waterloo Centre was originally awarded in August 1978 at a cost of approximately \$196,000. After the award of the contract, it was found that additional equipment was required for the optimum operation of the system. ASB indicated that this centre was the first to be installed and therefore it was a "learning stage" regarding the communications equipment required for a dispatch centre. The cost of this extra equipment totalled approximately \$188,000.

However, we noted that other centres installed since that time, or in process of installation, show cost overruns of up to 50 per cent due to the need for extra equipment. We felt that more accurate forecasting of CADC costs is required.

Delays are also being encountered in bringing these centres into operation. For example, a contract for the Niagara CADC awarded on March 23, 1979 stipulated a completion date of November 26, 1979. We were advised that due to public opposition, the project was placed on hold. This centre is not now expected to become operational until March 1982.

The contract awarded on March 23, 1979 was for equipment only in the amount of \$235,010. Terms of payment under the contract were on a percentage basis, with 65 per cent payable when all material had been delivered, 15 per cent on completion of installation of all systems and 20 per cent upon final acceptance by the Ministry. However, payments as at April 1980, the last time a payment was made under the contract, totalled \$223,260, representing 95 per cent of the contract price of \$235,010. These payments were in excess of payments due under the terms of the contract.

We also noted that extra equipment in the amount of \$131,000 was ordered during the 1980-81 fiscal year and this will be paid for as and when delivered during the 1981-82 fiscal year.

Another example of a delay in setting up a CADC and involving extra costs from those initially contemplated, is the Hamilton Wentworth Centre. A contract was awarded in February 1979 for approximately \$197,000. Extra costs totalled \$153,000. These amounts were paid to the contractor and the system was expected to become operational by April 1980. However, major equipment prob-

lems have delayed this system from becoming fully operational. The dispatching function for the Brant County Ambulance Service which operates within this CADC area, is still being performed by the City of Brantford for which ASB is currently paying \$2,816 per month.

OTHER

Several anomalies were noted in the areas of fee for services expenditures and travelling expenses. Examples were as follows:

- Persons are engaged by the training section of ASB on a fee for service basis to conduct the theory and practical Emergency Medical Care Assistant examinations and to assist in a consulting capacity on certain special projects. We noted a lack of formal agreements setting out the terms of employment and in cases where an agreement was on file, the actual hourly rate paid differed from the agreed rate.
- Expenses of \$260 were incurred to fly a person from Toronto to Ottawa to act as monitor at an Emergency Medical Care Assistant theoretical examination in Ottawa on January 24, 1981. We felt that as arrangements for these examinations are made well in advance, a suitable person should have been used from the Ottawa area.
- The headquarters of a staff member who has been on the unclassified staff since May 1977 as a special projects officer is Chatham. In October 1980 the position of Manager, N.E. Region, became vacant and this staff member was required to act in this capacity from October 8, 1980 to April 16, 1981. This person travelled by air from Chatham to Sudbury each Tuesday and returned to Chatham each Friday. On many occasions this person was in Sudbury for only one and a half days each week as he was required to attend staff meetings in Toronto. Travel costs involved amounted to \$8,000 to April 16, 1981 at which time this person suffered a severe heart attack. We suggested that a more logical use of staff could have avoided the excessive travel involved and improved coverage provided for the N.E. Region.
- During the period April 1, 1980 to March 31, 1981 the manager of the Eastern Region was required to visit ASB Toronto to attend various staff and other meetings. Travel costs in this regard amounted to approximately \$10,000, and it was noted that on a number of occasions meetings were only two days apart.

As a result, we recommended that accurate documentation should be obtained to support payments made to persons engaged on a fee for service basis. Additionally, consideration should be given to a more economic scheduling of head office meetings to effect a reduction of the numerous trips made by Regional Managers to Toronto.

The foregoing observations and recommendations were reviewed in draft form with officials of the Ministry. However, since no formal memorandum had been issued as at September 30, 1981, the date of this Report, we were unable to present the Ministry's views on the subject matter.

2.17 Improvements in Affirmative Action Program Delivery Recommended, Women Crown Employees Office, Ministry of Labour. The Women Crown Employees Office (WCEO) was established in 1974 to implement the recommendations of the 1973 Green Paper "Equal Opportunity for Women in Ontario: A Plan for Action", insofar as it was related to improving the status of women employed in the Provincial Government. The WCEO works closely with Management Board of Cabinet and the Civil Service Commission in matters related to the Government's Affirmative Action Program for women Crown employees.

The costs of the Affirmative Action Program include not only the expenditures of the WCEO, but also direct and indirect resources allocated by ministries and agencies. For 1980-81, the reported expenditures were \$2.15 million.

OBJECTIVES OF AFFIRMATIVE ACTION PROGRAM

The long term objective of the Affirmative Action Program is to raise the level and diversify the occupational distribution of women Crown employees as tangible evidence of their obtaining equal opportunity. More specifically, the Managing by Results (MBR) abstract submitted by the WCEO for 1981-82 states the objective in the following terms:

"That women will achieve a minimum representation in all modules and categories of 30 per cent by the year 2000 and that each year their representation in under-represented categories and modules will be raised and diversified according to numerical planning targets."

The objective may be considered as:

- 1) A long term objective of 30 per cent representation in all modules and categories by the year 2000; and
- 2) Short term (annual) objectives in terms of priority hire/promotion numerical targets, and accelerated career development commitments.

Of 28,300 women, ministries reported that over 1,400 (5 per cent) received accelerated career development in 1980-81. The estimate had been 2.9 per cent.

Our major comment on the statistical indicators provided by the 1979-80 Annual Report on the Status of Women Crown Employees with respect to classified employees on a service wide basis, was as follows:

There were three modules/categories for which 30 per cent representation by women would seem to be an unrealistic goal, as illustrated by the following table:

	<i>No. of Employees</i>		<i>Women as a</i>
	<i>Male</i>	<i>Female</i>	<i>Percentage</i>
Technical module	1,604	34	2.1
Maintenance services category	6,176	200	3.1
Law enforcement category	4,012	76	1.9
<hr/>			
Other modules and categories (13)	11,792	310	2.6
	28,877	28,030	49.3
<hr/>			
	40,669	28,340	41.1
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We did not fully understand the logic of having a 30 per cent objective applicable to all modules and categories. Although we were informed that the 30 per cent level is a goal which will be reconsidered periodically, we felt it is impractical, since it does not distinguish between modules and categories which currently have widely different female representation.

We recommended that consideration be given to restating the long term objective in terms more closely related to estimated availability, i.e., representation in each occupational group should approximate the proportion of women qualified and available over a reasonable period of time.

METHOD OF ADMINISTRATION

In light of the total costs of the Affirmative Action Program and the quasi central agency role of the WCEO, we questioned the economy of not having this government-wide program administered by the existing personnel organization. In this connection, we understood that the WCEO recognizes the idealism of phasing itself out as soon as sections of the Manual of Administration introduced in 1980 dealing with Affirmative Action are fully implemented and tested.

We recommended that, in due course, the achievements of the program in terms of its total costs be reviewed with a view to having the program administered through the normal personnel structure of the Government.

AFFIRMATIVE ACTION PAMPHLETS

In some ministries, the Affirmative Action program managers prepare and circulate pamphlets on affirmative action matters. To some extent, these pamphlets duplicate or repeat material which has been issued by the Women's Bureau, such as the Women in the Labour Force factsheets. The Director, WCEO informed us that the pamphlets give the managers an opportunity to personalize their programs. While we did not dispute the need for this distinctive quality, we were concerned that, on occasion, some of the "facts" included in the pamphlets may inadvertently be misleading, inaccurate or outdated. For example:

In addressing the "myth" that "Women work only for 'pin money' and luxuries", a pamphlet published by one ministry in October 1980 stated the reality as:

“In 1975, 36.8 per cent of the three million women in the labour force were working because of pressing economic need.”

A logical conclusion for the reader of this statement might be that 63.2 per cent of the women were working for reasons other than pressing economic need.

The statement also seems to have combined an Ontario percentage with an all Canada total and may have been partly derived from a factsheet which said that:

“In Ontario, 36.8 per cent of the female labour force in March 1975 were single, divorced or widowed. Self-supporting women such as these work out of necessity, not for pin money.”

Another ministry's pamphlet published in December 1979 refuted the same “myth” as follows:

“In 1971, nearly half of the three million women in the labour force were working because of pressing economic need.”

Additionally, we questioned the appropriateness of repeating any universal information in a pamphlet purportedly dealing with affirmative action in a particular ministry.

Another example:

In addressing the “myth” that “Women are less well educated”, the same pamphlet stated the reality as follows:

“The median level of education of Canadian women is actually higher than that of men. More women finish high school than men.

“An additional 10.1% of women and 4.6% of men have post-secondary, non-university training, and 6% of women and 9.1% of men have completed university.”

What the pamphlet did not explain is that a detailed examination of statistics would show women enrol primarily in Arts programs at universities, or train at community colleges for traditional female occupations and that technical education is still dominated by men with women clustered in the clerical occupations.

To improve the validity of ministry pamphlets, we recommended that:

1. Pamphlets be designed primarily along career profile lines so as to illustrate and engender interest in the careers available in the ministry.
2. Pamphlets be reviewed (vetted) by the WCEO prior to publication. Wherever possible, the sources for statistical data and contentious statements should be quoted.

The Deputy Minister subsequently replied as follows:

OBJECTIVES OF AFFIRMATIVE ACTION PROGRAM

“The Ministry intends to refine the long term goal statement as improved data on turnover and internal and external availabilities are derived from the yearly hire/promotion targeting system. This improved data base may enable the Ministry to apply different goal achievement levels to the various categories and modules.

“The logic of having the long term 30% goal statement apply to all categories and modules derives from the method of calculation which must, in keeping with sound program evaluation principles, be based on data which are available and reliable. The data available to the Ministry in projecting long term program achievement levels were historical statistics on hires and promotions by group, category and module. The existing data base was used at the category/module level to calculate achievement over periods of 10, 20 and 30 years, factoring in progressive improvement estimated to result from internal training and external factors such as improved representation of women at community colleges and universities.

“The principle that the goals and objectives of the Affirmative Action Program should be set on the basis of the availability of women to fill jobs is fundamental to the Directive. The annual hire/promotion targeting process is based on female availability and projected vacancies. Actual achievements of program results are estimated on a yearly basis. The long term goal statement was chosen by the government with the intention of providing a progressive level of achievement to work toward.”

METHOD OF ADMINISTRATION

“When the Affirmative Action Program was set up, the government established the policy that corporate implementation would be achieved by a separate organizational unit which could act as a catalyst for bringing about the desired level of change. This decision was based on the evidence that the existing personnel function was not capable of bringing about the systematic changes required to achieve equal opportunity for women without the catalytic support of a separate organizational unit with appropriate expertise in affirmative action.

“Notwithstanding this policy, the Ministry operates from the premise that when the government is satisfied with the level of results being achieved, e.g., through hire/promotion targets and accelerated career development, eventual integration will be appropriate. To that end, the Ministry has taken steps to prepare for this by integrating the planning and evaluation aspects of the program into existing management processes at the corporate and ministry levels. Two examples of this are that MBR approvals are tied to the Estimates process and program

evaluation is tied to the General Management Report to Cabinet. This decision has been reviewed and re-confirmed during subsequent changes to the program. The organizational placement of the Affirmative Action Program in each Ministry and Crown Agency is the prerogative of the Deputy Minister and Agency head with due regard to achievement of the program's objective.

"The Audit Report did not indicate how economies could be achieved through administration by the 'normal personnel organization'. If the government's policy on Affirmative Action for women in the public service is to be carried out, resources will continue to be allocated for that purpose until desired results are achieved. Placing the program, corporately or within ministries and agencies, within the 'existing personnel organization' will not therefore achieve savings."

AFFIRMATIVE ACTION PAMPHLETS

"The recommendation that ministry pamphlets be limited to information about careers in the Ministry, disregards the need for the program to raise the level of awareness of all employees regarding the status of women in the Ontario Public Service and the need for and objectives of affirmative action. Career information by itself will not provide sufficient motivation to interest women in career changes. Information such as advertisements for accelerated career development initiatives, staff training workshops and affirmative action program achievements may, coupled with career information, attract women to job areas where they are under-represented.

"The recommendation that the Women Crown Employees Office should vet pamphlets prior to publication will be discussed with Ministries and Agencies to determine whether publication guidelines should be developed. It is not within the mandate of the Women Crown Employees Office to vet the publications produced by Ministries and Agencies. The Ministry must carefully assess the advantages to be gained by vetting publications against the disadvantages which might result from this shift toward centralization and control."

2.18 Potential for Duplication of Effort and Performance Appraisals, Women's Bureau, Ministry of Labour. The Women's Bureau was established in 1963 to improve the status of women in the labour force through research and public education, and by encouraging the utilization of labour legislation and identifying labour force issues. The Bureau has three sections—Affirmative Action Consulting Service, Research and Information and Community Outreach. Expenditures of the Bureau for the 1980-81 fiscal year were \$586,000.

POTENTIAL FOR DUPLICATION OF EFFORT

The Women's Bureau works closely with the Ministry's Employment Standards Branch and the Ontario Human Rights Commission. For example, the Bureau is actively involved in the equal pay program in a counselling, advisory and monitoring role and the Director co-chaired the steering committee along with the Director of the Employment Standards Branch. The Director also participated in the equal pay media campaign which was funded at a cost of \$473,000 by the Employment Standards Program. To some extent, the roles of the Employment Standards Branch and the Ontario Human Rights Commission, which are derived from legislation, overlap the role of the Women's Bureau (i.e. to improve the status of women in the labour force). The 1980-81 Estimates description of the Employment Standards Program in part is "to promote actively the adoption of socially desirable terms and conditions of employment" while the description of the Human Rights Commission Program in part is "to protect individuals from discrimination in employment".

Externally, the Bureau has established liaison with Federal government bodies such as Canada Employment and Immigration, Secretary of State and the Women's Bureau of Labour Canada and with the Women's Bureaus in other provinces. With respect to the Canada Employment and Immigration Commission (CEIC), the Director, in February 1980, reported certain jurisdictional difficulties concerning affirmative action:

"The establishment and activity of a federal affirmative action consulting service is having an increasingly severe effect upon the operations of the provincial service.

"By approaching the major employers in Ontario and encouraging them to implement affirmative action programs, the federal agency is duplicating the pattern of contact established and followed by the Women's Bureau service over the past five years.

"The result is increasing confusion on the part of the employers as they detect conflict between the federal and provincial governments. . . ."

Following negotiations, letters of agreement were exchanged in December 1980 whereby (in part):

1. The CEIC will invite companies with federal government contracts of more than \$200,000 to use the services available through CEIC unless the companies disclose involvement already with the Ontario Women's Bureau Consulting Service;
2. When CEIC affirmative action consultants make contact with provincially-regulated employers not having a contract with the federal government, the same procedure regarding disclosure of involvement with Ontario applies;

3. The Ontario Women's Bureau Consulting Service agreed not to initiate contact with federally-regulated employers; and
4. The Ontario Women's Bureau consultants will advise employer clients of the availability of the in-depth consultative service of the CEIC. (The CEIC service differs from that of the Women's Bureau in that federal consultants offer technical assistance to employers, offering to work at the employer's premises, and accumulate and analyze data.)

In concluding the agreement, the Deputy Minister noted his understanding that "the two programs are complementing each other and that our respective staffs are cooperating and are continuing to carry out dialogue when appropriate. I am pleased, as I am sure you are, that a workable understanding that avoids duplication has been reached."

While we were reluctant to criticize the arrangements with the CEIC, we felt that, although technically complementary, the two programs taken together are an inefficient and uneconomical way of achieving similar objectives and will only continue to be a source of confusion to employers. In this connection, some thought has been given by the Bureau's Consulting Service to a change in strategy. We recommended that any change in the nature of the Bureau's activities be carefully considered in the light of:

1. The enforcement and promotional roles assigned to other Ministry branches; and
2. The emergence of the federal presence in a consulting service capacity.

Of interest also, in relation to the Bureau's advisory role, is the mandate of the Ontario Status of Women Council. As revised by Order in Council in May 1979, its mandate in part is:

"To advise the Government of Ontario, through the Provincial Secretary for Social Development, on matters pertaining to the status of women . . .

"To evaluate and monitor existing legislation, policies and programs related to the needs and status of women . . .

"To consult with groups . . ."

The Director of the Women's Bureau pointed out, however, that whereas the Council looks at all aspects relative to the status of women, the Bureau concentrates on the status of women in the work place.

In summary the Director does not accept that there are significant elements of duplication or overlap in jurisdiction and considers the field (status of women) to be "under-resourced" if anything, in relation to the large number of employers in Ontario. Nevertheless, in view of:

1. The Bureau's length of tenure—established in 1963, and

2. The number of other government bodies and branches having interests in the status of women,

we recommended that consideration be given to critically examining the role of the Women's Bureau in the context of potential for duplication of effort.

PERFORMANCE APPRAISALS

One means of ensuring accountability and efficiency of staff performance is the performance appraisal process. We found that performance appraisals for the staff of the Women's Bureau had not been prepared since February 1979. However, the Director has a revised form under consideration and intends to have appraisals completed regularly in future. We found the failure to have had performance appraisals completed regularly surprising, since the Bureau in 1978 published a booklet on performance appraisal for distribution to employers. The booklet noted that regular, accurate performance appraisal is basic to any effective affirmative action plan.

The Deputy Minister responded to our recommendations as follows:

POTENTIAL FOR DUPLICATION OF EFFORT

1. *"The involvement of the Women's Bureau with those branches of the Ministry of Labour which enforce legislation is of a complementary rather than a duplicating nature. The Employment Standards Branch and the Ontario Human Rights Commission have specific mandates to enforce legislation. While they 'promote actively the adoption of socially desirable terms and conditions of employment', the government has not assigned to these branches the mandate to ensure that the specific and unique needs of women are addressed. Rather, this mandate has been assigned to the Women's Bureau, which provides information and counselling which is not available through the other branches, or refers clients to enforcing agencies, if appropriate.*
2. *"The report notes that while the arrangements with Canada Employment and Immigration Commission regarding affirmative action consultation are 'technically complementary, the two programs . . . are an inefficient and uneconomical way of achieving similar objectives and will only continue to be a source of confusion to employers'. Not only does this recommendation disregard both fact and experience, but it appears to have been made without substantiation. The agreement negotiated between the Women's Bureau and Canada Employment and Immigration Commission, and approved by the respective Deputy Ministers, was made in response to the identification of the potential for duplication; the agreement eliminates this possibility. It is within provincial jurisdiction and, indeed, it is the responsibility of the government of Ontario to address the needs of its labour force, with the exception, of course, of that segment*

which is federally regulated. The emergence of the federal government in the field of affirmative action cannot alter that responsibility.

3. *"No relevant conclusions can be drawn from the fact that the Women's Bureau has been in existence since 1963. The continuing need for the Women's Bureau will, presumably, depend upon the Government's assessment of the Bureau's success in fulfilling its mandate.*
4. *"The role of the Women's Bureau with regard to the status of women is separate and distinct from that of other branches in the Ministry of Labour and other programs and agencies of other ministries and governments. The Ontario Status of Women Council, for example, consists of appointed members of the public who may respond to any aspect of the status of women such as battered wives, etc. The Women's Bureau concentrates on employment issues (and provides internal support to Government)."*

The Deputy Minister's reply did not address our comments regarding "Performance Appraisals".

2.19 Matters Related to Efficiency of Technical Services Division, Ministry of Municipal Affairs and Housing. The Technical Services Division of the Ministry provides consultative services to assist and advise the Ministry, its Crown agencies and various municipalities in providing rental accommodation for low and modest income groups. For the fiscal year 1980-81 gross expenditure for this Division was approximately \$3.5 million (1979-80 \$3.2 million), consisting mainly of employees' salaries, wages and benefits.

STAFF COMPLEMENT AND WORKLOAD

Our review of the organization of this Division indicated that the workload of the Construction Section of the Chief Engineer's Branch has been reduced due to a decrease in the construction of Ontario Housing Corporation rental units. We noted that the Ministry has not recruited construction inspectors since 1975 and has since reduced its staff from 37 to 21. According to the Executive Director of the Division, the planned 1981-82 workload will require 17 inspectors, leaving four inspectors surplus. Inspectors in this section earn an average salary of \$27,000 a year.

We were informed that there were new private non-profit and cooperative housing programs being introduced, and that there was considerable uncertainty as to which level of government would be responsible for these programs. Throughout 1980, there were strong indications that administration of these programs would be transferred from the Canada Mortgage and Housing Corporation to the Ministry. Had this transfer occurred, the present inspection staff of 21 in the Construction Section would not have been sufficient to provide the inspections re-

quired to meet the Ministry's responsibilities in this area. Hence, the Ministry retained surplus complement to meet this possible need. Since it subsequently has been determined that these programs will not be transferred to the Ministry, we recommended a review and adjustment of the complement and staff in relation to the workload in order to improve administrative efficiency and economy in the branch operations.

REVIEWS OF TECHNICAL DOCUMENTS

The Division reviews technical documents for the Municipal Non-Profit Housing Program. Under this program, non-profit companies are required to comply with certain procedures. However, we were informed that the procedures are not always carried out satisfactorily by these companies. This has resulted in the Division having to conduct as many as eight additional reviews of technical documents per project. A contributing factor was stated to be a lack of direct communication between the municipalities and the Ministry which resulted in unnecessary paper work and consequently an inefficient use of manpower.

MANAGING BY RESULTS REPORTS

We noted that the Ministry had not prepared Managing by Results (MBR) reports for the Division for the last two years. We were informed that the preparation of the MBR reports was postponed until the non-profit and cooperative housing programs were in place and the question of lead agency resolved. As this matter had been resolved at the conclusion of our audit in April 1981, we understood that the Ministry was currently developing an MBR style report for submission to Management Board.

The foregoing comments were included in our memorandum of September 11, 1981 to the Ministry. We have no record of a reply as at September 30, 1981, the date of this Report. We are, therefore, unable to present the Ministry's views on the matters raised.

2.20 Systems and Other Deficiencies re Payment of Ontario Pensioners Property and Sales Tax Grants, Ministry of Revenue. The Ontario Pensioners Property Tax Act came into force on July 1, 1980, authorizing the payment of property tax and sales tax grants to senior citizens. For the 1980-81 fiscal year, the total of such grants was \$268.2 million.

FILING AND RETRIEVAL SYSTEM—APPLICATIONS AND OTHER DOCUMENTS

During the months of August and September 1980 the Ministry mailed application forms to approximately 770,000 persons who were considered eligible for benefits under the Act. The mailing list was based on information obtained from the Department of National Health and Welfare (Canada) and the Ministry of Community and Social Services. Completed applications were subsequently received from approximately 560,000 applicants for benefits.

The first procedure performed on these applications in the Ministry was a visual review for completeness. Prior to data entry, the applications were assembled in batches of 100 and a number assigned to each batch and item.

Our review of the system for handling the applications revealed that they were not date stamped on receipt or filed in any systematic way, such as by terminal digit, Old Age Security (OAS) number, Social Insurance Number (SIN) or Ministry assigned number. We felt that this could result in inefficiencies when a certain application had to be found to answer an inquiry.

Similar problems were noted in connection with the handling of those applications which were rejected during data entry. Also, information contained in master files is maintained on micro fiche and it takes considerable time after each run before the fiche is made available to staff.

We found that internally generated documents such as copies of letters to pensioners, journal entries affecting the grant amount, address changes were not filed with the pensioners' applications. These documents were stored separately and filed alphabetically in the case of correspondence, and by terminal digits of the plan number (which may be either SIN or OAS number) for journal entries.

We therefore recommended that all documents pertaining to a grant payment be interfiled with the application and that the applications for 1980 and future grants be maintained for each pensioner in a separate file.

COMPUTERIZED ACCOUNTING SYSTEM

The main computer system will, upon request generate applications, compute amounts for eligible grants and issue cheques in payment thereof. It will also make adjustments to the master file by setting up overpayments, recording payments received and will link accounts. During our review we observed that the accounts receivable transaction details list reported incorrect balances. These occurred when overpayments were either wholly or partially recovered from 1981 interim grants, with the result that the interim grant, instead of being deducted from the receivable amount, was added thereto. Other errors also occurred when the Ministry attempted to make adjustments to the accounts.

An additional systems error was noted when interim cheques sent out for the 1981 grant were returned and cancelled. In these cases the system generated and mailed a second cheque, even though there was no entitlement. A further error in the system occurred when cheques were issued in response to urgent requests from applicants. These cheques were issued from the Advance Account of the Guaranteed Income and Tax Credit Branch. However, when the journal entry introducing the payment made out of the Advance Account was processed on the same run as the pensioner's application, a computer generated cheque was also sent to the pensioner. The faults in the system should be corrected.

RECONCILIATION OF INPUT TO OUTPUT

At the time of our review, the Ministry did not reconcile any of its input to the output for these grants. Requisitions were signed on the basis that the amount appearing on the computer reports was correct. The total number of records paid and the total dollar value had not been checked. During our review we also noted that some journal entries entered into the computer were not accounted for by the output. This is a serious weakness in the computer system, as all accounting information in relation to grant payments is maintained on the computer. We therefore recommended that all input be reconciled with output, and discrepancies followed up.

COMPLIANCE WITH APPLICATION FORM

The Ministry has prescribed the format and content of the "Application for the Ontario Pensioner Property Tax Grant". The Application provides that among other information the applicant "must provide rent receipts". During our review of a random selection of applications, we noted that this form was not properly completed or did not have the necessary rent receipts attached in over 40 per cent of the applications we reviewed.

We recommended that the Ministry ensure its prescribed form is complied with, and information supplied is sufficient to determine eligibility and the amount of a grant to be paid.

RECORDING OF ACCOUNTS RECEIVABLE

The staff in the Accounts Section of the Guaranteed Income and Tax Credit Branch is responsible for recording any property tax grant overpayments identified. The Branch analysts are to provide staff in the Accounts Section with a copy of the letter forwarded to the pensioner in which a refund for the ineligible grant was requested. The accounts staff is to prepare the computer input documents for the recording of overpayments. In addition, overpayments are also recorded on a manual card system. During our review we found that it was not possible to reconcile the accounts receivable, as many of the copies of letters sent by the analysts had not been received in the Accounts Section. Therefore, accounts receivable in this category were recorded neither on the computer system nor the manual system.

Interim property tax grants were paid in 1981. We noted that overpayments related thereto were not recorded in the system, since a directive was issued to staff stating that overpayments not be set up until the pensioners filed their 1981 applications for property tax grants.

We did not concur with the procedures adopted, as persons residing in institutions in 1980, who have filed a grant application for that year will likely do so again. In addition, persons who made errors in their taxes or rent reported for

1980 may do so again for 1981. Persons having partial entitlement in 1980 before being admitted to an institution, who have been identified as being overpaid, should not have been paid an interim grant.

We also noted that persons overpaid as a result of having received two sales tax grants were not requested to refund the money, nor were these overpayments recorded. All overpayments should be formally recorded so that recovery can be facilitated.

DETERMINATION OF OVERPAYMENTS

The Benefits Control Section, which is separate from the Guaranteed Income and Tax Credits Branch's operations, is required to review payments for compliance with the Act and to identify those payments which were made to ineligible persons. The Section is comprised mainly of tax auditors. We ascertained that, by August 21, 1981, the Section had identified in excess of \$1.3 million of property tax grant payments made to pensioners who were not eligible.

Under the system the Section is to record all overpayments found on a form called an Audit Worksheet. Subsequently, the Worksheet together with the pensioner's file is forwarded to the Operations Section of the Branch. Before requesting a pensioner to refund the overpayment, analysts, who are clerical staff in the Operations Section, check the work performed by the Benefits Control Officers. Our audit disclosed that on several occasions the analysts reversed or reduced the overpayment computed by the Tax Auditors, and that there was no reconciliation between the overpayments reported to management by the Benefits Control Section and overpayments recorded in the Accounts Receivable Records of the Ministry.

It should not be necessary for clerical staff to check the Benefits Control Officers. Therefore, we recommended that Benefits Control Officers be made responsible for their audits, the preparation of computer input documents setting up the overpayments and that the Benefits Control Section perform a reconciliation for overpayments identified during audit and ultimately recorded as Accounts Receivable in the accounting records of the Ministry.

The foregoing matters were reviewed with officials of the Ministry. However, no formal memorandum had been issued as at September 30, 1981, the date of this Report. Therefore, we are unable to present the Ministry's views on the subject matter.

2.21 Comments and Recommendations re Experience Program, Provincial Secretariat for Social Development. The Experience Program provides a variety of positions for youth in government ministries and community agencies during summer months. Established in 1973, the Program is coordinated by the Ontario Youth Secretariat which has responsibilities in the areas of program design, program promotion and the allocation of funds and positions to participating ministries.

Youth enrolled in the Program receive the Provincial minimum wage which has been adopted in order to maximize the number of positions. In 1980, the Experience Program provided approximately 10,450 jobs at a budgeted cost of \$13.5 million.

Twenty-four ministries participated in the 1980 Program (entitled Experience '80) through eighty-nine programs of various types, either by hiring youth directly or by providing funds to associated agencies.

OBJECTIVE OF THE EXPERIENCE PROGRAM

As stated in the 1981-82 Estimates submission, the objective of the Experience Program is to provide:

“for Ontario youth, the maximum number of career related employment opportunities in Government ministries and associated agencies.”

From other documents and literature, we found that, in varying importance, the Program is intended to:

1. Reduce youth unemployment during the summer—and also provide funds for youth to continue their education;
2. Help youth acquire basic work experience—for improved employability and improved career awareness and choice;
3. Help youth acquire career related skills suitable to the labour market for improved employability; and
4. Contribute to ministry and agency objectives and provide expanded benefits to communities.

Educational and geographical distributions are considered in allocating the positions, and emphasis is placed on opportunities for handicapped and disadvantaged youth.

We recommended that the Secretariat endeavour to amplify the Program objective formally in terms of the intended effects and in terms of results and time frames which can be directly and precisely related to those effects. The expanded terms should be clearly set out in the Estimates or Managing by Results submissions in order of their priority as determined by policy decision.

EVALUATION OF EXPERIENCE PROGRAM

Management Board of Cabinet, during its review of the 1980-81 Estimates for the Experience Program, agreed that the Ontario Youth Secretariat should have the program evaluated and requested that the results be reported to the Board. Accordingly, in February 1980, the Secretariat contracted to have a review of the program completed. The invitation for proposals, in describing the scope of the review, referred to the measurement of employee and employer related objectives and noted that the primary purpose of the review was:

“to determine whether the program is providing young people with career related work experience.”

In this respect, the Secretariat wished to determine:

“whether the employees acquire job skills,

“whether these skills are transferable to the private sector and

“whether such experience assists them in securing full-time employment in the private sector.”

The methodology for evaluation of the program involved telephone conducted surveys of samples from three summer-employed youth populations:

A. Participants in the 1979 Experience Program;

B. Rejected applicants of the 1979 Experience Program; and

C. A cross-section of students at the secondary and post-secondary levels, representative of the proportion from each level who participated in the 1979 Program.

A copy of the evaluation report was forwarded to the Secretary, Management Board of Cabinet in July 1980 and findings of the evaluation were referred to in a February 1981 report to Management Board on the 1981-82 Estimates for the 1981 Experience Program. In our opinion, these references were somewhat misleading, inasmuch as they dealt only with the positive findings, as illustrated by the following quotations. The Estimates submission noted that:

“Evaluation concluded that the Experience Program has a considerable impact on career awareness for participants.”

“A substantial majority of participants indicated that they acquired or improved career-relevant skills.

“Experience '79 tended to confirm the career path of participants and had some effect on their education plans.”

The results compiled from the surveys, however, did not indicate significant differences among the three groups in these aspects and the evaluation summary noted that:

“As for providing career related work experience, participants certainly felt that they had acquired new skills or improved existing skills as a result of the Experience '79 job. Actually, the majority of students in all three samples reported such an effect for their summer job, but the skill acquired or improved for participants was slightly more marked than for the cross-section of students.”

“When asked whether ‘these skills will be important in your current or long-term career plans’, the pattern of responses did not differentiate the partici-

pants from the rejected applicants; participants, at both the secondary and post-secondary levels, were a little more inclined than the cross-section to see an improvement in skills."

and

"The majority of the three samples did not think that the work experience they had in the summer of 1979 had any effect on their career plans, but participants were more inclined to see such an effect (35%) than either of the other groups."

Furthermore, the Estimates submission did not refer to two of the key program outcomes which we quoted earlier as being germane to the primary purpose of the review:

1. *Whether the job skills acquired are transferable to the private sector.*

The evaluation summary noted that there appeared to be no major effects of the program on creating skills transferable to the private sector, apart from "people skills" mentioned by the post-secondary participants.

2. *Whether the experience assisted participants in securing full-time employment in the private sector.*

The evaluation summary reported that there were no differences among the three samples in their perception that the experience gained on the job improved their chances of getting a summer job or a permanent job.

Accordingly, we recommended that in future, results be reported through the Estimates process in a manner designed to fairly and succinctly cover all the basic issues.

MISCELLANEOUS EXPERIENCE EXPENSES

Towards the end of each summer, the Secretariat publishes a newsletter for distribution to ministries and the participants. We were told by a regional coordinator in one ministry that the 1980 newsletter had not been received until after most of the Experience youth had completed their term of employment. Consequently, the copies received for a major ministry program were discarded.

For the 1981 Experience Program, the Secretariat purchased and distributed sun visor caps for all participating youth as an awareness and promotional measure. During visits to ministries, we encountered some adverse reaction to the distribution of the caps. For some individual programs, employees are required to wear hard hats on the job and in many programs employees work in offices.

While the expenditures for these items were not significant relative to the overall Program costs (approximately \$10,800 for the newsletter and \$26,400 for the caps) we suggested that the timing and need respectively for these items be appraised for future years.

REVIEW OF SELECTED MINISTRY PROGRAMS

We reviewed the operations of four major and four minor Experience programs at the Ministry level. These eight programs accounted for approximately 60 per cent of the positions available in the 1980 and 1981 Experience programs. The comments which follow cite examples of projects which we felt were not appropriate to the objectives and guidelines of the Experience Program.

Reduction of Youth Unemployment

The guidelines for the Program require that Experience employment must be in addition to the contract positions normally provided by ministries during the summer months.

We found that positions both within ministries and in funded agencies did not meet this requirement. In effect, therefore, youth unemployment is not always reduced proportionate to the numbers of youth hired under the Program.

—Examples of positions which probably would have had to be filled regardless of Experience funding were:

- replacements for vacationing clerical staff,
- swimming instructor for a campers' association,
- camp sports and cultural instructors,
- tennis instructors,
- park and woodlot attendants at Provincial parks,
- mail and messenger service for ministry offices, and
- over the counter service, collating and stapling material.

We therefore recommended conformity to the guidelines requiring that Experience positions be in addition to the contract positions normally provided during the summer months.

Work Experience

Although most Experience positions undoubtedly provide basic work experience, many seem to have a weak relationship to improved employability, improved career awareness or helping youth acquire career related skills (see Objective of the Experience Program). Examples of positions which we did not deem to be career related were as follows:

- A school board received funding to hire ten students to apply bar code labels on school library books;
- A veterinary student reported that "I was expected to spend considerable amounts of time cleaning kennels, feeding animals and cleaning the clinic";
- Garbage pick-ups, cleaning, facilities repair and painting.

In some cases Experience objectives were kept in mind when developing guidelines for programs and/or projects. However, with the exception of the Min-

istry of Agriculture and Food program for veterinary students, we did not find solid evidence that career related experience was considered as a major factor in determining whether or not to approve projects.

We therefore recommended that ministries develop criteria to avoid employment of Experience youth in task oriented jobs.

Contribution to Ministry and Agency Objectives

As already noted (Objective of the Experience Program), the Program is intended to contribute to ministry and agency objectives and provide expanded benefits to communities.

Particularly in a Ministry of Culture and Recreation Experience program, we observed a serious imbalance between these objectives and the objectives of helping youth acquire experience and skills leading to improved employability. Two examples of projects illustrate our point:

1. A municipality received funding to hire four young people to:
 - (a) provide active programming of basketball, volleyball, tennis, ping-pong, badminton . . . and
 - (b) provide passive programming such as card games, pool, chess, checkers . . .
2. A community organization received funding to hire three young people to supervise activities described, in part, as follows:
 - (a) teach arts and crafts,
 - (b) going into the woods and teach children the beauty of nature and do some wild berry picking, and
 - (c) help children in swimming, baseball and track and field.

The project's objectives were "to teach the children they can play (work and still have fun), sportsmanship, finish what they start, and be proud of their achievements. The roles of the youths to be hired will be to show punctuality, to show great interest in everything they do with the children, to take responsibility at all times, to report to supervisors whenever a problem should occur."

From a description, this project seemed to be designed mainly to benefit the children of the community rather than provide any useful work or career related experience to those employed. As it turned out, the organization was unable to find suitable young people to hire for the project, and instead hired community residents age 32 (two persons) and age 40 (one person).

We recommended that the Ministry of Culture and Recreation Experience program 0701 be thoroughly assessed in the context of Experience objectives with a view to eliminating projects which are inappropriate to those objectives. Fund-

ing for this particular program (dealing with citizenship development, cultural activities, heritage conservation and recreation) exceeds \$2 million, and we felt a measure of economy could be achieved by elimination of unsuitable projects.

The Deputy Provincial Secretary for Social Development subsequently responded as follows to our comments and recommendations:

OBJECTIVE OF EXPERIENCE PROGRAM

"The objectives of the Experience program have expanded and evolved since the program was initiated. The current objectives of the program will be set out in more detail in a Management by Results submission to be presented to Management Board this year."

EVALUATION OF EXPERIENCE PROGRAM

"The references to the evaluation of the Experience program in the February 1981 Report to Management Board were only a brief summary of the main findings in the evaluation report. The Management Board Secretariat received a full copy of the report and was aware of all the findings."

"While the differences between the three groups surveyed were not large in percentage terms, it is noteworthy that Experience participants consistently reported greater benefits from their summer employment than persons who did not take part in the program. Given that one would expect most summer jobs to provide positive benefits to the persons employed, the differences were certainly not insignificant. For example, 79% of Experience participants reported that they gained useful skills as compared to 73% of rejected applicants and 66% of the cross section (Volume III, page 29 of the evaluation report). A quote in the Evaluation Summary Report (page 11) makes clear the consultant's views:

'Considering all the evidence together, it is clear that the program participants were different from others in career orientation. They were, for example, more inclined to select their summer job because it was linked to a career goal or related to an educational program and not a high salary. Females were more satisfied than males with their summer job. Although participants did not feel that their permanent job prospects were improved by the experience more of them reported that their 1979 work had an effect on their career path. This was to confirm the path that they were following.'

"The percentage of persons surveyed who indicated that their summer employment had an effect on their career plans may be a result of the manner in which the survey question was posed. Participants were asked 'Do you think the work experience you had during the summer of

1979, that is, this past summer, had any effect on your career plans?' In posing the question, it was not made clear that a confirmation of career plans was deemed to be an effect. This may well have led a considerable number of persons surveyed to give a negative response to the question."

MISCELLANEOUS EXPERIENCE EXPENSES

"The review of the 1981 Experience program will include an examination of these items."

REVIEW OF SELECTED MINISTRY PROGRAMS

Reduction of Youth Unemployment

"In October 1979, Cabinet agreed that the Experience program should no longer distinguish between jobs which are deemed complementary to ministry's operations (experience-based) and those deemed to be completely related to the objectives and operations of the ministry (task-based).

"In view of this decision, there is no longer a distinction between the types of work which might be carried out under the Experience program and those carried out by other contract staff employed by the ministries during summer months. This action was taken in recognition of financial restraints to insure that Experience jobs could provide the maximum benefit to both the participants and the ministries concerned. The current guideline (requiring Experience positions to be in addition to contract positions normally provided during the summer months) is intended to insure that a person on contract staff is not displaced by an Experience participant."

Work Experience

"As noted above, Cabinet has approved the inclusion of task-oriented jobs in the Experience program. In effect, this formalizes a situation which had developed gradually in recent years. While the provision of career-related experience is a major objective of the Experience program, there are other important objectives such as the provision of valuable services at the community level. It is not expected that every job will satisfy equally all the objectives of the program. Nevertheless, as shown by the Experience evaluation, a large majority of Experience participants (79%) reported that they gained useful skills through their summer employment. In the future, the Ontario Youth Secretariat will continue its effort to improve the quality of the positions offered through the Experience program."

Contribution to Ministry and Agency Objectives

"As noted above, Experience programs may legitimately address a number of different objectives. In that light, this recommendation will be reviewed with the Ministry of Culture and Recreation.

"... reference is made to the hiring of two persons age 32 and one person age 40 under Program 0701. This is quite legitimate as the Experience Program is subject to the Ontario Human Rights Code and cannot allow discrimination on the basis of age.

"The Deputy Minister of Culture and Recreation has forwarded the following comments in response to the findings and recommendations contained in the section on Ministry Programs:

'The Provincial Auditor is quite accurate in indicating the importance our Ministry places on Experience Programs which contribute toward Ministry and Agency objectives and provide expanded cultural and recreational benefits to the communities served. From the student benefit perspective, we have tended more to providing 'basic work experience'. This philosophy has evolved more from the limited career vision of non-university students, most of whom are simply looking for a work experience. We feel that we fulfill this minimum standard, and indeed go beyond it, where we have designated a program to appeal to post-secondary school students who have a specific career interest and related academic background (e.g. T.V. Ontario, Ontario Arts Council).' "

2.22 Overexpenditure of Various Activities, Ministry of the Solicitor General. Part of our year-end examination of Volume 1 of the 1980-81 Public Accounts involved a review of the Ministry of the Solicitor General's statements of expenditure.

Based on our review we concluded that, through the process of charging certain expenditures to an Activity other than the Activities to which such expenditures should have been charged, the Ministry had circumvented the provisions of section 5 of The Management Board of Cabinet Act. In summary, funds were expended other than for the purposes for which they were appropriated. Section 5 of the Act provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper (i.e. a Management Board Order).

Our review of invoices, receiving documents, payment requisitions and journal entries disclosed that a total of \$1,464,597 was charged to the Law Enforcement Activity of the Ontario Provincial Police Operations Program during the latter part of the fiscal year which otherwise would have been charged to the following:

	\$
OPP Management and Support Services Program	
Planning and Research Activity	22,210
Transport Activity	1,342,012

Quartermaster Stores Activity	41,389
Records Activity	53,500
OPP Operations Program	
Community Services Activity	5,486
	<u>1,464,597</u>

Had these expenditures been charged to the preceding Activities, the total expenditure for each one of these Activities would have exceeded their total appropriations.

By way of example, included in the preceding amounts was a journal entry prepared as at March 31, 1981, whereby \$522,202 worth of equipment purchased between May 1980 and March 1981 was transferred from the Transport Activity (to which it had consistently been charged) to the Law Enforcement Activity. Additionally, several payment requisitions dated March 31, 1981, amounting to \$535,622 for gasoline purchases, were charged to the Law Enforcement Activity, although such purchases are normally charged to the Transport Activity.

As a result of our review, we recommended that:

- a) the Ministry's system of expenditure control should be upgraded to enable early detection of problem areas so that they may be dealt with on a timely basis, and
- b) in future, when it becomes obvious that certain appropriations will be exceeded, the Ministry should immediately apply for Management Board Orders.

In responding to our comments, on September 28, 1981, the Deputy Solicitor General stated:

"... a feasibility study for financial systems upgrading has been initiated to strengthen financial control through improved reporting, processing and control systems.

"The Ministry agrees with this recommendation (i.e. b) and has made every effort in the past to comply with this policy. However, it should be noted that the Ministry was advised by Management Board of Cabinet that the last date for consideration of Management Board Orders for 1980-81 was April 14, 1981. Also, we were encouraged in early February to submit applications for Management Board Orders as soon as possible in view of the provincial election.

"I believe that it should be pointed out that the emergent nature of the policing services provided by the Ontario Provincial Police requires that a degree of flexibility must be maintained in the financial process. It has been and will continue to be the practice to move personnel and equipment between programs and activities to meet demands as they

arise. We do not reflect these priority shifts in the financial process as little benefit would accrue to the program and an unwieldy and costly administrative process would be created."

With regard to the final paragraph of the Deputy Solicitor General's reply, we do not believe that the degree of flexibility referred to should extend to charging expenditures to appropriations other than the ones under which they were budgeted and to which they pertain. Additionally, the obtaining of Management Board Orders when it becomes obvious that appropriations will be exceeded should not, in our opinion, create an unwieldy and costly administrative process.

2.23 Implementation Gaps re Strategic Policy Development and Planning Process, Ministry of Transportation and Communications. The Strategic Policy Development and Planning Process is stated in Ministry literature as the process of positioning the Ministry so that it can be of maximum effectiveness in the future. The literature also states that through the Process, executive management can efficiently and effectively:

- identify threats and opportunities in the external environment and strengths and weaknesses in the internal organization and functioning of the Ministry;
- identify objectives and strategies to fulfill the Ministry's mandate and maintain a responsive and proactive posture to government policy;
- formulate implementation plans for programs which will lead to the attainment of Ministry and program objectives;
- increase efficiency and effectiveness in the deployment and utilization of resources.

The Process therefore has the potential to serve as a good overall management planning and control system which could provide due regard for economy, efficiency and effectiveness. Further, we believe the Ministry should be commended for undertaking a project of this magnitude.

INTRODUCTION OF THE PROCESS

In 1975, management consultants, working closely with Ministry staff, reviewed the strategic policy planning and evaluation within the Ministry. In October 1975, the consultants reported that a great deal of planning was being done and further initiatives were underway, but efforts were fragmented and serious shortcomings existed which confirmed the need for a Strategic Policy Development and Planning Process (Process). The Process recommended by the consultants consisted of:

- (a) An annual cycle of four interlocking and sequential phases—assessment, strategic policy development, long-range implementation planning and annual planning.

- (b) A structure of various planning committees and a secretariat. As a result of this recommendation, a Strategic Policy Committee (SPC), a Strategic Policy Secretariat (SPS), five Program Planning Committees (PPC) and a Resources Planning Committee (RPC) were established.

Three years were recommended as the period for implementation of the Process. We understood that at that time such a Process, though tested and found successful in private organizations, had not been extensively applied to a governmental agency in Canada.

From 1976 to 1978, counsel and assistance were provided by the consultants to the Ministry in the development of the Process. Total cost for the consultants' initial review and subsequent assistance was about \$101,000.

STUDIES ON THE PROCESS

A) Results-Oriented Management (ROM) Project

In 1979, the Deputy Minister requested a study on results-oriented management in the Ministry. Significant management problems faced by the Ministry which ROM attempted to resolve included the following:

- The Process had not yet been fully implemented. Consequently, the ministry lacked an integrated management framework and process linking strategic policy development and program planning with operational planning functions.
- Management, at the strategic and program levels, appeared to be lacking sufficient information to adequately measure and control performance.

These problems were still in existence at the time of our review in the early part of 1981.

The extensive ROM project, which included the identification of actions necessary to ensure that the Process was fully implemented within the Ministry, was carried out mainly by Ministry staff, including staff of the Strategic Policy Secretariat, at an estimated cost of about \$169,000. The report was issued in March 1980 in two volumes with 144 recommendations. Four chapters of the report dealt with the Process.

B) Consultants' Evaluation

In April 1980, the management consultants who recommended the Process and provided counsel and assistance to the Ministry in developing the Process were retained to examine and evaluate all components of the Process.

Some of the major findings and conclusions reported by the consultants in June 1980 at a cost of about \$10,400 were:

- While progress had been made in implementing the Process, considerable work remained to be done. The Ministry will require an additional

two to four years to bring the Process to a reasonable state of satisfaction.

- Some of the original concepts had not been adopted as intended.
- Planning roles needed to be clarified and better understood.
- Renewed commitment and effort would be required by Ministry management to fully integrate strategic policy development and planning into the management process.

C) Committees and Secretariat Review

In September 1980, the Program and Resources Planning Committees and the Strategic Policy Secretariat reviewed the progress in implementing the Process. The Chairmen concluded that it was apparent that implementation of the Process had still some way to go—some components were in place, some needed strengthening, some had flaws and a few did not exist at all. The Chairmen believed that what was wrong with the Process could be distilled to a single major issue—“What is the link between resources allocations and strategic priorities?”

CONCLUSIONS AND RECOMMENDATION

After more than five years, the Process had still not been fully implemented by the Ministry, with major implementation gaps existing. Although numerous recommendations were contained in both the ROM report and the 1980 consultant's evaluation, we saw no evidence of an organized approach being taken for the implementation of these recommendations.

We therefore recommended that a formal implementation plan be developed and monitored, which would be designed to address both (a) the existing gaps in the Process, and (b) the status of all recommendations contained in the studies. We felt that such a plan would be most helpful in making decisions on what aspects of the Process should be modified or discontinued.

Our comments and recommendations were included in a memorandum sent to the Ministry on September 9, 1981. Since the Ministry has not had sufficient time to reply, we are not able to present its views on the subject matter.

2.24 Simplification of Workload and Improvements in Internal Controls Recommended, Vehicle Licensing System, Ministry of Transportation and Communications. The licensing of passenger and commercial vehicles is conducted by approximately 300 issuing agents appointed by the Minister, and 12 Ministry field offices. Revenue generated from this source totalled \$311.7 million in the fiscal year ended March 31, 1981.

WORKLOAD RE VEHICLE REGISTRATION FEES

Issuing agents and Ministry field offices report revenue collected on a regular basis to the Agents Issuing Section of the Ministry. Some 50,000 correction

notices are issued annually by this section, requiring agents to adjust financial errors on subsequent reports. Although this volume of correction notices attests to the diligence of the verification work performed by the Ministry's staff, it also indicates that agents do not perform their work and prepare their reports with reasonable care and accuracy. We felt that the large number of various fees in force contributes to the problems of agents in assessing licence fees.

The fee schedule covering the registration of commercial motor vehicles has approximately 300 fees covering an annual term, and another 900 fees covering three-month, six-month or nine-month periods. Annual fees range from \$60 for up to 2,400 kilograms Registered Gross Weight (RGW) to \$129 at 5,000 kilograms RGW. Thereafter, the annual fee differential increases every 200 kilograms RGW by amounts averaging \$7. Similar smaller fee schedules apply to the registration of farm vehicles and public and school buses.

In 1978, a Ministry analysis of licensed commercial vehicles indicated that out of a total of approximately 771,000 registered vehicles, 79 per cent (614,000) had a RGW of 5,000 kilograms or less. Our review of the monthly statistics covering the issue of 1979 commercial licences showed that 594,000 licences were issued for a full year, which leads to the conclusion that the majority of commercial vehicles with a RGW up to 5,000 kilograms are renewed on an annual basis.

A Vehicle Registration Study Project which was underway at the time of our review has the objective of designing, developing and implementing a new Vehicle Registration System. One of the features of the new system will be to replace the present practice of registering the licence plate against the vehicle to one of registering the licence plate against the owner. For the efficient administration of the new plate-to-owner concept, we were advised by various management staff of the Ministry that a flat fee for all passenger cars would be desirable. Currently, there are four fees in Southern Ontario, dependent upon the number of cylinders, and a flat fee for cars owned by residents in Northern Ontario.

We endorsed the viewpoint of a common registration fee for all passenger cars in Ontario, as it would simplify the fee structure, and negate the necessity of adjustment of fees upon transfer of the owner-plates between automobiles with a different number of cylinders within the same licence year.

In addition to addressing the easing of the administrative workload, we recommended that the Project give consideration to:

1. Consolidation of the present commercial vehicle fee schedules to fee increases every 5,000 kilograms RGW, and the setting of fees for each 5,000 kilogram increment relative to the present fee schedule. Such a consolidation would contract the fee schedule to 13 annual fees plus the related quarterly fees.
2. Mandatory annual renewal of commercial vehicle registration with a RGW up to 5,000 kilograms.

3. Discontinuing the issuance of correction notices with a value of \$1 or less to reduce the volume of some 50,000 correction notices being issued each year. A test check of approximately 1,700 correction notices issued in the 1979 licence year indicated that approximately 20 per cent of the notices were for amounts of \$1 or less.

On February 16, 1981 the Deputy Minister replied as follows to our recommendations:

"These proposals (1 and 2) are being considered by the Vehicle Registration Study Project as part of the staggered renewal process. It appears though that a more realistic RGW limit would be 3,000 kg. if our intention is to isolate true commercial use vehicles from the large number of personal use commercial vehicles.

"The recommendation that we discontinue the issue of correction notices with a value of \$1.00 or less is welcomed. I have instructed (the) Director, Financial Planning and Administration Branch to take steps to initiate the recommendation."

Regarding common registration fees, the Deputy Minister stated:

"We are currently constrained with respect to alterations in the vehicle registration fee system as a result of a Cabinet Minute stating that the fee system would not be altered. Nonetheless, the matter will be reviewed shortly in conjunction with the Vehicle Registration System Project proposals for plate-to-owner registration. It is agreed that the flat fee would be a much simpler and less costly thing to administer."

INTERNAL CONTROLS, AGENTS' REPORTS

Our review of internal controls over the verification of agents' reports revealed a number of deficiencies. To improve the verification process we recommended that:

1. Consideration be given to integrating the various computer programs which verify the accuracy of agents' reports, in order that one overall error listing is produced for each agent's report, and all corrections made at one time. Such a procedure would permit a quicker processing of the "Valtag Match" reports which are produced for matching the value of validation stickers issued by an agent with the corresponding fees collected and deposited by the agent. We noted that in August 1980 no "Valtag Match" reports of satisfactory quality had been produced for 1980 motor vehicle registrations. We raised this matter as a result of our review of 1979 correction notices. In that year agents submitted detailed listings covering the issuance of commercial permits. In some cases errors in addition of these listings resulted in agents under-remitting fees due to Ontario. The Ministry's manual check of these listings revealed the discrepancies, but final adjustments were not made for several weeks.

Such listings have not been submitted for the 1980 commercial issues, and similar errors, therefore, will not be discovered until the commercial "Valtag Match" reports have been produced.

2. Issuing agents be reminded that prompt attention be given to correction notices issued by the Ministry. We noted several instances where settlement had not been made as at the close of our audit work in this area on June 23, 1980 for correction notices issued in April and May 1980. Examples included one notice for \$8,000 and another for over \$7,000.
3. Consideration be given to charging interest to agents on amounts owing which are not settled within a reasonable period of time from issuance of correction notices.

The Deputy Minister replied to our recommendations as follows:

1. *"All comments are valid. We expect to address the problems identified by implementing a number of manual and computer system changes for the 1981 renewal year beginning December 1, 1980. A Renewal Processing Project is underway to define and develop the modifications necessary to achieve an accurate and timely integrated renewal update and financial reconciliation."*
2. *"Agents will be reminded of their responsibility to deal promptly with correction notices."*
3. *"Depending on the type of hardware system approved for development by Vehicle Registration Study Project, correction notices will either come under much tighter control and be automated or the necessity for them will be virtually eliminated by an on-line financial system. This will obviate the need to consider charging interest on amounts owing from our agents."*

2.25 Weaknesses in Agents' Direct Deposit System, Ministry of Transportation and Communications. Deposits made by the majority of licence issuing agents across the Province are transferred daily from the branch banks to the head office of each bank in Toronto for direct deposit to the credit of Ontario. A system is in place to verify that deposits as reported by agents have all been credited to Ontario. Computer tapes of the month's deposits by each agent are supplied by each bank. Deposits reported by agents are accumulated on a tape file at the Downsview Computer Centre. Approximately once a month the files are processed via a computer match program, and a report is produced of unmatched agents' and bank deposits.

As at June 30, 1980 the unmatched deposit report showed agents' unmatched deposits totalling \$1,892,000 and unmatched bank deposits amounting to \$10,640,000. While the majority of unmatched deposits pertained to the period March 1 to June 30, 1980, we noted that there were unmatched deposits covering the period September 1, 1979 to February 29, 1980 of \$586,000 and \$730,000 for

agents and banks respectively. We noted the following weaknesses in the system:

1. One person was responsible for:
 - (a) Recording the daily bank deposits reported by the Ministry of Treasury and Economics.
 - (b) Reconciliation of bank tapes to recorded deposits.
 - (c) Processing the input of deposits reported by agents.
 - (d) Reviewing and investigating the unmatched deposit reports.
 - (e) Entering of all corrections to clear unmatched deposits.
2. There was no assurance that all agents' deposit reports had been received by this person from the Agents Issuing Section of the Ministry for input into the computer.
3. Batch slips covering the input of agents' deposits were not authorized by the signature of the input clerk.
4. There was a considerable time lag in the investigation and correction of unmatched deposits.
5. There was no overall reconciliation of deposits reported by agents to the bank deposits for each month or on a cumulative basis.

We felt that the present system was not achieving its objective of ensuring that all deposits reported by agents are received by Ontario. The fact that there was no overall reconciliation between bank deposits and agents' reported revenue indicated that invalid corrections could be entered, to force a match between agents' and bank deposits.

We recommended that, in view of the preceding weaknesses, a review be made of the present reconciliation and balancing procedures to provide effective control within the system.

The following reply was received from the Ministry on February 16, 1981:

"We are in agreement with the auditor's comments. A review of the system will be undertaken with a view to strengthening the control element."

2.26 Expenditure of Royal Commissions. Royal Commissions, effective April 1, 1980, are defined in the Ontario Manual of Administration as "commissions, judicial inquiries, inquiries and other investigatory bodies appointed by Order in Council under the power of The Public Inquiries Act or appointed under any other Act where the investigatory body is given the powers of a Commission appointed under The Public Inquiries Act". Prior to April 1980, Royal Commissions were defined as including only investigatory bodies appointed by Order in Council under the power of The Public Inquiries Act.

During the year ended March 31, 1981, expenditure was incurred in respect of nine Royal Commissions. Expenditure detail, which is reflected in Volume 3 of the 1980-81 Public Accounts for these Commissions, may be summarized as follows:

<i>Subject Matter</i>	<i>Date Established</i>	<i>Status at March 31, 1981</i>	<i>Expenditure 1980-81 \$</i>	<i>Cumulative Expenditure to March 31, 1981 \$</i>
Freedom of Information and Individual Privacy	Mar. 30/77	Completed	175,462	1,676,431
Status of Pensions	Apr. 20/77	Completed	222,810	1,177,075
Northern Environment	July 13/77	In Process	1,289,968	4,988,625
Confidentiality of Health Records...	Dec. 21/77	Completed	246,419	1,437,147
Care of Kim Anne Popen	Mar. 2/78	In Process	—	214,817
Discounting and Allowances in the Food Industry in Ontario	Aug. 23/78	Completed	88,001	442,205
Use of Fuels Containing Poly-chlorinated Biphenyls (PCBs)	Feb. 14/79	In process	1,695	6,482
Collective Negotiation Process between Teachers and School Boards	Oct. 24/79	Completed	39,832	109,853
Health and Safety Arising from use of Asbestos	Apr. 29/80	In Process	191,802	191,802
Toronto Islands	Aug. 1/80	In Process	198,649	198,649
			2,454,638	10,443,086

2.27 Expenditure of Select Committees. Select Committees are appointed by order of the House to consider matters upon which the House desires information and assistance. During the year ended March 31, 1981 expenditure was incurred in respect of five Select Committees. Expenditure detail is reflected in Volume 3 (Office of the Assembly) of the 1980-81 Public Accounts, and may be summarized as follows:

<i>Subject Matter</i>	<i>Date Ordered</i>	<i>Status at March 31, 1981</i>	<i>Expenditure 1980-81 \$</i>	<i>Cumulative Expenditure to March 31, 1981 \$</i>
The Corporations Act of the Province of Ontario and Related Acts and Regulations	June 22/65	Ongoing	219,651	2,285,078
Reports of the Ombudsman	July 15/76	Ongoing	37,517	361,207
Ontario Hydro Affairs	Nov. 24/77	Completed	347,295	1,273,400
Constitutional Reform	June 3/80	Completed	129,652	129,652
Plant Shutdowns and Employee Adjustment	Oct. 28/80	In Process	30,526	30,526
			764,641	4,079,863

COMMENTS ON CROWN AGENCY OPERATIONS

3.1 Introductory Comments. The term Crown Agency for purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations, as defined in sections 5.1 and 5.3 respectively of this Report. A listing of agency of the Crown and Crown controlled corporation audits, by category, for the year ended March 31, 1981 is included as Exhibit 6 of this Report.

3.2 Newly Established Crown Agencies. Five Crown Agencies were established during the 1980-81 fiscal year. Of these, the Ontario Educational Services Corporation, Ontario Waste Management Corp. and Ontario International Corporation are agencies of the Crown which are audited by our Office, whereas Metropolitan Toronto Convention Centre Corporation and Ontario Van Pool Organization Limited are Crown controlled corporations which are audited by public accounting firms.

Ontario Educational Services Corporation. This Corporation was established on November 28, 1980 under The Business Corporations Act. The Corporation's objects are numerous, and include:

- a) the study of matters and problems relating to and affecting the use of Ontario's educational and training resources in the international marketplace, and
- b) providing teachers and other educational personnel, as well as consulting and other personnel services relating to education and training.

Ontario Waste Management Corp. This Corporation was established on January 2, 1981 under The Business Corporations Act. Its objects are to treat sewage, manage waste and carry on any other business related thereto as agent of Her Majesty the Queen in right of Ontario.

Ontario International Corporation. This Corporation was constituted on June 16, 1980 by Ontario Regulation 496/80 pursuant to section 5 of The Development Corporations Act. Its objects include developing and promoting the export of Ontario goods and services on a competitive basis in domestic and international markets.

Metropolitan Toronto Convention Centre Corporation. Pursuant to Order in Council 303/81, dated January 29, 1981, this Corporation was established under Part III of The Corporations Act. The objects of the Corporation include the construction, operation, maintenance and management of an international class convention centre facility in the Municipality of Metropolitan Toronto.

Ontario Van Pool Organization Limited. This Corporation was established on April 29, 1980 pursuant to the provisions of The Business Corporations Act. Its objects are to develop and operate commuter and other van pool programs; to buy, sell, lease, exchange and otherwise deal with vans and other vehicles; and generally to engage in the business of transportation of persons and goods.

3.3 Inactive Crown Agencies. Two agencies were inactive as at March 31, 1980 and were commented upon in our 1979-80 Report (section 3.4). These agencies remained inactive as at March 31, 1981. The following comments are pertinent thereto:

Ontario Deposit Insurance Corporation. The Deputy Minister of Consumer and Commercial Relations wrote on July 22, 1981 to advise:

"... the status of this corporation has not changed since the Honourable Frank Drea wrote to you in August 1979. It remains inactive.

"Since there is still a remote possibility that O.D.I.C. could be called upon to protect depositors with financial institutions, any decision on the future of the corporation is again being deferred."

North Pickering Development Corporation. On July 30, 1981 the Deputy Minister of Municipal Affairs and Housing advised:

"... our Legal Branch is arranging with the Legislative Council for an updating of the draft bill to rescind The North Pickering Development Corporation Act. It is our intention to introduce this bill at the fall sittings this year."

3.4 Subsidiaries of Crown Agencies. Certain of the Crown Agencies listed in Exhibit 6 of this Report have wholly-owned subsidiaries. These are summarized as follows:

Subsidiaries of Northern Ontario Development Corporation

—Minaki Lodge Resort Ltd.

—Minaki Development Company Limited

—Thunder Bay Ski Jumps Limited

Subsidiaries of Ontario Energy Corporation

—Ontario Energy in Transportation Ltd.

—Ontario Energy Resources Ltd.

—Ontario Alternate Energy Ltd.

—Ontario Powershare Ltd.

Subsidiaries of Urban Transportation Development Corporation Ltd.

—Toronto Transit Consultants Ltd.

—Metro Canada Limited

Crown controlled corporations are defined in section 5.3 of this Report, together with the responsibilities of the Provincial Auditor relating to such corporations. In summary, corporations are considered to be Crown controlled under section 1(e) of The Audit Act if more than 50 per cent of their issued and outstanding shares are vested in Her Majesty in right of Ontario or if a majority of the board of directors is appointed or approved by the Lieutenant Governor in Council.

In this regard, we were of the opinion that the preceding subsidiaries should be considered Crown controlled corporations under section 1(e) of the Act. Our reasoning here was that although the shares of such subsidiaries are vested in the parent company rather than Her Majesty in right of Ontario, for all intents and purposes these subsidiaries are Crown controlled, since the parent companies are all controlled by the Province. Although our interpretation had not been challenged, we thought it best to seek a legal opinion from the Deputy Attorney General.

On July 21, 1981, we were advised as follows by the Deputy Attorney General:

"... It is our view that there is some difficulty in characterizing the subsidiaries ... you refer to as Crown controlled corporations. It is our view that ownership of the shares of the subsidiaries would be held to be vested in the parent corporations and not in Her Majesty in right of Ontario. This interpretation is not free from doubt. I would recommend that the matter be clarified by an amendment to the legislation."

As a result of the foregoing opinion, we have not included any of these subsidiaries in Exhibit 6 of this Report. If it is the desire of the Legislature that such subsidiaries be treated as Crown controlled corporations, we suggest that an amendment to The Audit Act be recommended by the Standing Public Accounts Committee.

3.5 Improvements in Monitoring of Loans Recommended, Eastern and Northern Ontario Development Corporations. The audited financial statements for these two Corporations for the year ended March 31, 1981 are reproduced in Volume 2 of the 1980-81 Public Accounts.

Among the various types of financing provided by these Corporations are Ontario Business Incentives Program (OBIP) Loans, which are normally up to a maximum of \$500,000 to assist capital investment. These loans are interest free for up to five years and the principal repayments can be deferred for a similar period. The total amount of such loans receivable as at March 31, 1981 was \$77.8 million.

Incentive loans are considered in the following instances:

- (i) where an incentive is required to persuade a business to establish or expand a facility within the Province;

- (ii) where funds are required to effect an immediate expansion of an ongoing business; and
- (iii) where low cost financing is required to give business time to reach full profitable production levels.

In assessing criteria, the Corporations consider such factors as job creation, export increase, import decrease, amount of research and development to be undertaken, etc.

In reviewing a limited number of companies which had received incentive loans in 1974 and 1975, we noted that the subsequent monitoring of the criteria which were taken into consideration in granting the loans was inconsistent. For instance, we observed inadequacies in the collection of information relating to the creation of jobs, lack of evidence on file to indicate any follow up action when required information was not submitted by the borrower, etc.

We recommended that the Corporations upgrade their monitoring procedures to ensure that any deficiencies are promptly brought to management's attention.

The foregoing comments were reported to the Corporations on September 30, 1981, the date of this Report. Since they have not had an opportunity to respond, we are unable to present their views on the subject matter.

3.6 Administrative Deficiencies, Liquor Licence Board. As reflected in Volume 1 of the 1980-81 Public Accounts, the Board's revenue and expenditure for the year ended March 31, 1981 amounted to \$125.6 million and \$7.4 million respectively. Revenue is deposited into the Consolidated Revenue Fund, and expenditures are paid out of moneys appropriated by the Legislature.

During the year, at the request of the Deputy Minister of Consumer and Commercial Relations, we completed a review dealing with certain aspects of the Board's administration. A summary of the major findings and conclusions resulting from this review follows:

PURCHASE OF GOODS AND SERVICES

- 1) During the 1977-78 fiscal year, the Board commenced doing business with a small consulting firm with whom the wife of a senior official of the Board was employed. Payments to this firm for the years ended March 31, 1978, 1979 and 1980 were \$4,925, \$12,558, and \$13,494 respectively. Payments for the ten months ended January 31, 1981 dropped to \$141. In view of the following comments, the earlier dealings with the firm appeared questionable.
 - The firm was retained by the senior official of the Board to provide the Board with professional consulting services. All dealings with the firm were handled directly by this official.

- There was no evidence of purchase orders having been issued, or formal contracts signed by the firm.
- There was no evidence of any work output from the firm. Billings were received for writing letters, telephone calls, review of staff newsletters, media coverage and clippings, profile interviews and numerous meetings with the senior official of the Board. At several of these meetings, hospitality was extended by this senior official to the firm's president and others in the form of lunches or dinners at various restaurants.

In our view, the preceding comments suggested an indiscriminate use of authority.

- 2) The Board purchased five Age of Majority booths, one in September 1977 and four in July 1978, from a Toronto company at a total cost of \$6,461. One booth for \$1,802 was ordered by the firm referred to in 1) and paid for directly by the Board. The other four booths for \$4,659 were invoiced to the Board by the company on July 5, 1978. The invoice was not supported by a purchase order but was approved for payment by the senior official. We presumed that these booths were also ordered by the firm referred to in 1). At the time of our review, there was only one booth in storage at the Board. The manager of the Licensing Branch was unable to tell us what happened to the other booths.
- 3) In late 1979, the Board purchased \$900 worth of decorations and plants from a flower shop. Information provided to us indicated that these items, consisting mainly of flowers, were distributed to all female staff members of the Board and to certain individuals of firms providing services to the Board.

The invoice for these flowers, which was paid on April 16, 1980, was approved for payment by the senior official, who requested that the cheque be sent to him for mailing.

This transaction appeared highly questionable.

ADMINISTRATION AND PERSONNEL

- 1) Liquor Licence Board By-Law No. 1 was enacted in January 1977, placing the responsibility for administering the Board with an Executive Committee. This Committee, consisting of the Board's executive director and the other four Branch directors, is responsible for managing the administration and financial affairs of the Board.

We observed that minutes were only kept for three meetings of the Committee since its inception—July 3, 1980, August 11, 1980 and February 3, 1981. In our view, the lack of regular meetings raised doubt on the management process at the Board.

- 2) Due to lack of proper follow-up, employees were allowed to accumulate more than one year's vacation credits, contrary to policy. As at December

31, 1980, there were 27 Board employees who had accumulated vacation credits in excess of the allowable amounts. In 10 cases, excesses were over 5 days, with one as high as 67 days. At the conclusion of our review, the personnel manager was taking appropriate action to reduce such excess credits.

3) An employee was hired on a contract basis on November 8, 1976 to administer the direct sales of Age of Majority identification cards. Through the process of contract renewals, this employee remained with the Board until December 31, 1979. Our observations in this regard were as follows:

- We did not observe any evidence that this position was advertised.
- During the period from October 9, 1977 to April 30, 1978, there was no evidence of work being performed by this employee, although she was paid \$10,470. In support of this observation, the employee did not sign any time sheets attesting to her attendance during the period, the monthly sales reports of the "Age of Majority Card" project indicated "nil" sales for the period, and there was no evidence of any activity reports having been submitted by the employee for this period. However, payroll input forms containing a column headed "Dates Worked", were signed by the Board's personnel manager or his secretary during this period. These forms could be construed, in spite of the preceding, as attesting to the employee's attendance during this period.
- There was no evidence of a contract between the employee and the Board for the period April 1, 1979 to September 30, 1979, during which time the employee was paid \$9,531. Again, during this period there was no evidence of the employee submitting time sheets attesting to her attendance, although payroll input forms signed by the personnel manager or his secretary, showed the employee as being in full attendance during this period.

TRAVELLING AND HOSPITALITY EXPENSES

We noted several instances where the aforementioned senior official provided hospitality to vendors doing regular business with the Board and frequently to other Board staff members. The justification for much of this hospitality was questionable. However, we noted a significant decrease in this senior official's claims for hospitality expenses effective July 1980, when the Deputy Minister of Consumer and Commercial Relations assumed the responsibility for approving his expense claims.

The Deputy Minister of Consumer and Commercial Relations subsequently replied to our comments as follows:

"By way of general comment and as you are aware, there have been significant organizational changes at the LLBO since your audit was carried out. Specifically, a new chairman has been appointed and the

(senior official) has resigned. Mr. Willis Blair, the new Chairman, has initiated a number of administrative procedural changes which we expect will greatly improve the control over financial and other matters of the Board. I would also point out, that the inadequacy of some of the previous procedures has made it difficult to determine what exactly did happen with regard to some of the matters raised in your audit report and further review is continuing.'

The Deputy Minister's comments relating to specific items reported were as follows:

PURCHASE OF GOODS AND SERVICES

'You have commented on a number of items largely turning on the practices of the former (senior official). Any shortcomings in these areas will have been dealt with by the fact that the (senior official) is no longer with the Board and by the tighter administrative controls introduced by the new Chairman.'

ADMINISTRATION AND PERSONNEL

- 1) *'This matter has been rectified by organizational changes brought about by the new Chairman.'*
- 2) *'I am advised that the period when excess vacation credits accumulated occurred when the Board was without a Personnel Manager and that the current manager has now regularized the situation.'*
- 3) *'It does indeed appear that there is a gap of six months in the contracts on file for this temporary employee. However, because of the inadequate controls and procedures in place at the time, the Chairman has not been able at this time to determine whether a contract is missing from the file or whether it was not renewed for this period through oversight or otherwise. The records of the Board seem to indicate that she was employed during the period, part of which I am told was a vacation period for (the employee).'*

Your report indicates that she did not sign time sheets attesting to her attendance during this period. I am advised that at the Board temporary employees' time sheets are interim forms which are transcribed onto the payroll sheets and the original documents are destroyed. It is not possible therefore to determine whether she signed the original documents or not. It should be noted that she was attached to the Personnel Office and that the then Personnel Manager signed the payroll sheets stating, 'We hereby certify that this is a true and correct statement as to attendance of the above employees for the period.'

'I am also advised that (her) work included special projects throughout the Board and that the fact that there are periods where the record indicates she was not employed on the age of majority

card issuing project, does not establish that she was not employed elsewhere in the Board.

'In summary, further investigation is necessary before any final conclusions can be drawn on this matter and I am advised that the Chairman is pursuing the matter further. I will report to you concerning his additional findings as soon as I have received them.'

3.7 Review of Selected Operational Matters, Ontario Economic Council. Although the Ontario Economic Council is not an agency of the Crown as defined in The Audit Act, its operations are more akin to those of an agency, as opposed to a Ministry. Direct government participation in the Council's affairs is limited to the appointment of its members and funding.

The Ontario Economic Council was originally established by Order in Council in February 1962 in response to a perceived need for long term economic planning. The Order in Council was superseded by The Ontario Economic Council Act of May 1968. Funds for the Council's operations are provided in the Estimates of the Ministry of Treasury and Economics. For the year ended March 31, 1981, Council expenditures amounted to approximately \$940,000.

During the year, we completed a review of the Council's operations. The objectives of this review included:

- 1) an assessment of matters related to compliance with The Ontario Economic Council Act, and
- 2) an assessment of matters related to the efficiency/economy of the Council's operations

A summary of the significant findings and recommendations resulting from our review, together with the Council's September 22, 1981 reply is contained in the following paragraphs.

COMPLIANCE WITH THE ONTARIO ECONOMIC COUNCIL ACT

The Act outlines both an advisory role and a research-related role for the Council. The advisory role (section 4 of the Act) is mandatory, stating that "it is the duty of the Council to advise and make recommendations to the Executive Council or any member thereof on methods for,

- a) encouraging the maximum development of the human and material resources of Ontario;
- b) supporting the advancement of all sectors of Ontario; and
- c) fostering conditions for the realization of higher standards of living for the people of Ontario."

The research-related role (section 5 of the Act), on the other hand, is not mandatory, summarizing matters which the Council may deal with. These matters include the conduct and publishing of socio-economic studies, creating an aware-

ness and public understanding of provincial socio-economic issues by holding seminars and conferences, and maintaining liaison with the Economic Council of Canada and bodies in the jurisdictions corresponding to the Council.

Our review indicated that the Council is not making formal recommendations to the Executive Council as required by the Act, but does adhere to its research-related role. The majority of studies and papers published by the Council (approximately 80 per cent) have been directed more toward the dissemination of information than to providing recommendations to the government. In this connection, the Council might be viewed as a source of funding for socio-economic research, and this view is bolstered by the following disclaimer found in all the Council's research studies, occasional papers and discussion papers:

"This report reflects the views of the author and not necessarily those of the Ontario Economic Council. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy."

We therefore recommended that, in order to comply with section 4 of the Act, the Council take a more active advisory role vis-a-vis the Executive Council in the preparation and presentation of its studies and papers. As an alternative, the Council could seek an amendment to the Act which would define the Council's duties in terms of what is actually being done at present.

The Council replied as follows:

"The Report makes much of the point that the Council has not played the advisory role set forth in Section 4 of the Act. This Section makes it mandatory for the Council to advise and make recommendations to the Executive Council. This criticism is based on a difference in interpretation. The Council has issued scores of reports and studies over the years containing recommendations. These documents were certainly made available to the Executive Council. But they were also made available to the people of Ontario after a lag of a few days. The Executive Council has never requested confidential advice from the Ontario Economic Council and it is extremely doubtful if the Ontario Economic Council could provide it. The Ontario Economic Council members are not asked to take an oath of secrecy and many of them probably would refuse to do so if asked. This criticism of the Ontario Economic Council in the audit report reflects a basic misunderstanding by the auditors of the role of the Ontario Economic Council based on a narrow interpretation of Section 4 of the Act. The Council believes that the Government established and financed the Ontario Economic Council in order that both Government and the public obtain independent informed advice not otherwise likely to be available."

EFFICIENCY/ECONOMY OF COUNCIL OPERATIONS

Potential for Duplication of Effort

The mandate of the three branches of the Office of Economic Policy, Ministry of Treasury and Economics, namely the Economic Development Branch, the Economic Policy Branch and the Economic Research Branch, requires these branches to provide analyses, policy proposals and advice on key economic issues to the government. Additionally, the government has provided substantial funding in the form of grants to three other research bodies—the Institute for Research on Public Policy, the Conference Board in Canada and the Niagara Institute.

In light of the role of the Office of the Economic Policy and the government's funding of other research bodies, it was our opinion that there exists a potential for duplication of effort.

Order in Council 691/80 established termination dates for advisory agencies over a three year period. In this connection, we noted that the functions and operations of the Council are scheduled for review prior to March 31, 1982 preparatory to a decision as to whether the Council should be terminated or continued. We assumed that the duplication aspect of the Council's operations would be covered as part of this review.

No reference was made to the preceding comments in the Council's reply.

Performance Appraisals

One of the key contributions to an efficient operation is staff performance. Efficiency of staff performance is often enhanced by the use of regular performance appraisals.

Although the Deputy Minister requested that performance appraisals for every employee be completed by March 31, 1980, we did not find such evaluations on the personnel files. However, we were advised that the Administrative Officer intends to have performance appraisals prepared for all administrative support staff.

Formal performance appraisals have not been prepared in the past for professional staff nor was there any intention to do them in the future. The Research Director felt that in an organization as small as the Council, ongoing dialogue and interchange with staff should provide the necessary information and feedback on performance. While we agreed that this can be effective on an informal basis, we also felt that a formal basis can prove useful. Being written, a formal evaluation tends to have greater impact and provides a permanent record, particularly useful should there be a change in Research Director.

Professional staff are not uniformly productive and a formal evaluation process would provide a useful aid in determining whether or not a research officer's contract should be renewed after the twelve month expiry date. Records show that three research officers did not produce a single paper while employed at the Council.

Performance evaluations were not being prepared upon the completion of each assignment by university faculty and other external research suppliers. The Research Director felt that such evaluations would be meaningless, as objective criteria could not be developed in light of the uniqueness of each assignment. However, we noted that several authors had been engaged on more than one occasion and we considered it reasonable that in addition to the comments provided by external readers, the Council should have on file comments relative to such matters as:

- the strengths and weaknesses of the study;
- the validity of the conclusions reached;
- the extent to which contract deadlines and other specifications were met; and
- the amount of time Council's professional staff were required to spend on coordination and review.

We recommended that performance appraisals be completed on a regular basis for Council's administrative and professional staff. We also recommended that, upon completion of each assignment by an external supplier, a written evaluation of the supplier's performance be prepared consistent with the cost and complexity of the assignment.

The Council's reply did not address the preceding comments and recommendations.

3.8 Improvements in Administration of Mortgages Recommended, The Ontario Junior Farmer Establishment Loan Corporation. The Corporation's audited financial statements for the year ended March 31, 1981 are reproduced in Volume 2 of the 1980-81 Public Accounts. The Corporation was established in 1952 for the purpose of making loans to young qualified farmers for the establishment, development and operation of their farms. All such loans are secured by a first mortgage on the lands farmed by the borrower.

The Corporation has not accepted any new mortgage loan applications since 1969, and the final mortgage instalments on outstanding loans are payable in 1999. At March 31, 1981, the balance of mortgages receivable by the Corporation was \$50.3 million.

MORTGAGES IN ARREARS

In the past, acting under the provisions of the mortgage indentures, the Corporation would initiate sale proceedings on mortgages significantly in arrears. Currently, the Corporation attempts to collect overdue amounts through telephone calls, letters and visits to the mortgagor; if these steps prove unsuccessful, the Corporation no longer initiates sale proceedings to recover the outstanding mortgage balance.

We recommended that the Board of Directors consider a return to the more stringent collection procedures used in the past. If the Board decides not to change the present policy, we recommended that mortgages significantly in arrears be reserved for or written-off.

ASSUMPTION OF MORTGAGES ON SALE OF PROPERTY

Section 19 of The Junior Farmer Establishment Act states, in part, that:

“It shall be a term of a mortgage taken as security for a loan under this Act that, at the option of the Corporation, the mortgage shall immediately become due and payable where,

(a) the land or any part thereof is sold or otherwise disposed of.”

During the 1980-81 fiscal year, the Corporation's board of directors approved twenty-five assumptions of mortgages on farm property sold with existing junior farmer loans. The total amount of mortgage loans assumed was approximately \$515,000, with the mortgages bearing interest at an average rate of 5 per cent per annum.

Since no new loan applications have been accepted after 1969 and also since the assumed mortgages bear interest at rates significantly below current mortgage rates, we suggested that the Corporation reconsider its current policy with respect to section 19 of the Act.

FORMAL DOCUMENTATION OF DIRECTIVES

Section 12(1) of The Junior Farmer Establishment Act states, in part, that a loan applicant must not be more than thirty-five years of age and have had a minimum of three years experience in farming.

We observed that these conditions were not met in several instances where a mortgage was assumed by another party on sale of the property.

This practice is in apparent conflict with the legislation. We therefore recommended that a legal opinion be obtained if the Corporation intends to continue this practice.

The foregoing recommendations were included in our report of September 1, 1981 to the Corporation. Since no reply had been received as at September 30, 1981, the date of this Report, we are unable to present the Corporation's views in the matters raised.

3.9 Prevailing Weakness in Purchasing System, Ontario Northland Transportation Commission. The Commission's consolidated audited financial statements for the year ended December 31, 1980 are reproduced in Volume 2 of the 1980-81 Public Accounts.

In our reports to the Commission regarding the 1978 and 1979 fiscal years, we pointed out that the purchasing department approves the payment of purchases

it has authorized, and as a result any improper manipulation of documents and related assets could go undetected. As a result, we recommended that suppliers' invoices, copies of receiving reports and purchase orders be received directly by the accounts payable section, and directed to persons independent of those responsible for the requisition and purchase of goods and services. The Commission replied that there was not sufficient cause for concern to warrant the additional cost involved in implementing our recommendation.

The reply was based on a review of the purchasing and stores function. This review concluded that there was a significant separation of duties and responsibilities between the receiving and purchasing function. However, our reports dealt with the lack of segregation of duties and responsibilities between the purchasing and payment function. This weakness in internal control was not addressed by the Commission and still existed as at December 31, 1980.

In addition to the above control weakness, the following were observed during our audit of the purchasing department.

- The Director of purchasing was approving invoices for payment, without receiving the supporting receiving reports and purchase orders. (Also reported by internal audit.)
- Our review of outstanding purchase orders revealed several instances where the purchase orders were outstanding for periods exceeding a year, with no apparent follow up.
- A review of two blocks of 100 issued purchase orders revealed several breaks in the sequence. A total of 35 purchase orders could not be located.

In view of the preceding observations, we disagreed with the Commission's response to our 1978 and 1979 reports and again recommended that appropriate corrective action be taken to eliminate these control weaknesses.

The foregoing comments were included in our report of June 9, 1981 to the Commission. We have no record of a reply as at September 30, 1981, the date of this Report. We are, therefore, unable to present the Commission's views on the matters raised.

3.10 Potential Unrecorded Revenue, Ontario Place Corporation. The objects of this Corporation include the operation of Ontario Place as a provincial exhibit and recreational centre, and the development of projects and programs designed to provide the people of Ontario with a greater appreciation of the Province. As at March 31, 1981, the recorded assets of the Corporation totalled \$788,971 with offsetting liabilities of \$331,661 and retained income of \$457,310. For the 1980-81 fiscal year revenue, including grants of \$1,762,000 from the Province of Ontario, amounted to \$9,143,860. Expenses, including fixed assets purchased from revenue, totalled \$8,979,542.

PARKING REVENUE

The collection procedure for parking fees does not ensure the accountability of all cash receipts. There is no independent reconciliation of revenue to sales of parking spaces. Also, during slow times, the cashier has sole control over the parking operation, including collection of parking fees, issuance of receipts and controlling access to the parking lot; therefore the cashier could collect parking fees without recording the sale.

We were informed that automatic underground vehicle counters are already installed at the gates to the parking lots but are not used as an independent control because of the significant number of parking passes in use. However, in our opinion, any deviations by the counter could be logged by the cashier, thus attaining a certain degree of control. Since parking revenue accounts for a large portion of the Corporation's revenue (\$854,000 in 1980-81), the potential losses could be substantial. We therefore recommended that the Corporation either make use of the automatic counters or provide other controls to safeguard the assets.

This weakness was also noted by the Internal Auditors of the Ministry of Industry and Tourism.

GROUPS ADMISSIONS

The Corporation uses ticket 'spitters' to dispense admission tickets at the point of sale, and was experiencing problems with the operation of these machines. It was our understanding that they are neither repairable nor replaceable. As a result of these problems, various cashiers had access to unsold tickets. While we were aware that the cashiers are responsible for the difference between the opening and closing sequentially numbered tickets, collusion between the cashier who has access to the tickets and the employee who takes the tickets from the purchasers could present a problem.

We recommended that the Corporation provide an alternate means of controlling admissions revenue, one consideration being the use of suitable cash registers. The use of cash registers would also no longer necessitate the manual calculations by cashiers when multiple tickets are sold, thereby reducing the chance of errors.

The preceding comments were transmitted to the Corporation on September 29, 1981. Since the Corporation has not had an opportunity to respond, we are unable to present its views on the subject matter.

3.11 Deficiencies in Control and Disposal of Salvaged Goods, Star Transfer Limited. Star Transfer Limited was incorporated as a private company on January 2, 1951, and was subsequently purchased by the Ontario Northland Transportation Commission under an agreement dated July 11, 1960. Since that time, Star Transfer Limited has operated as a wholly-owned subsidiary of the Commission, and has provided trucking services throughout northeastern Ontario.

As at December 31, 1980, the Company's assets totalled \$7.4 million. Operations for the year ended December 31, 1980 resulted in a net loss of \$1.1 million.

SECURITY OF SALVAGED GOODS

Proceeds from disposal of salvaged goods amounted to approximately \$40,000 in 1980. In this connection, there was a serious lack of security over salvaged goods at the Timmins Terminal. Although safeguards for the control of these goods are in place, they have not been utilized. Our review revealed the following:

- salvaged goods are not locked up immediately in the space provided for such items;
- there is no control over the movement of goods into or out of the lock up area;
- the log book used to record items put into the lock up area has not been maintained since July 1980.

We recommended that the security measures in place be utilized. Additionally, in order to provide an audit trail of the disposition of salvaged goods, the cash receipt number or other disposition document should be identified in the lock up area log book.

DISPOSAL OF SALVAGED GOODS

During our interim audit in October 1980, we found that the majority of salvaged goods was being purchased by company employees. Our examination of the sales from one terminal disclosed the following:

- Sixty per cent of the sales of salvaged goods were made to company employees.
- Two employees participated in 38 per cent of the purchases, one of whom made 75 purchases from the total of 241 transactions.

We also noted that the Claims Officer who settles the salvage claims and determines the price of the salvaged items if a minimum of 80 per cent of cost cannot otherwise be obtained, has on occasion purchased such items.

Because of the possible conflict of interest where an employee is responsible for determining the extent of damages to a shipment and is also allowed to purchase the goods at a discount, we recommended the following:

- that the Company adopt a procedure similar to the requirements of the Ontario Manual of Administration regarding the disposal of movable assets which states:

“The procedure shall prohibit sale of movable assets to employees either directly or assisted by third parties.” or

—that the Company follow the procedure used by the Ontario Northland Transportation Commission regarding purchase of assets by employees which states:

“An employee of the Commission is not allowed to purchase or to arrange for someone else to purchase on his or her behalf, or for his or her use, any property, vehicle, equipment or material that is offered for sale.”

Although the former General Manager agreed to the above recommendations, we found during our final audit in February 1981 that employees are still allowed to purchase salvaged goods. However, the extent of this practice could not be determined, because the cash receipts issued after our comment in October 1980 no longer include the name of the purchaser. We were informed by the new Director of Transport Services who assumed the duties of the former General Manager, that he disagrees with our recommendation and believes that the current practice keeps the employees happy and reduces the amount of claims.

However, our concerns still remained and we again recommended that the Company's disposal procedure be similar to the requirement as stated in the Ontario Manual of Administration or that the Company follow the procedure established by the Ontario Northland Transportation Commission.

The preceding comments were included in our report of June 9, 1981, to the Company. We have no record of a reply as at September 30, 1981, the date of this Report. We are, therefore, unable to present management's views on the matters raised.

3.12 Improved Internal and Administrative Controls Recommended, Urban Transportation Development Corporation Ltd. The Corporation's audited consolidated financial statements for the year ended December 31, 1980 are reproduced in Volume 2 of the 1980-81 Public Accounts. The audit of this Crown controlled Corporation is performed by a public accounting firm. Included in their June 8, 1981 management letter to the Corporation, dealing with matters arising from the 1980 fiscal year audit, the auditors made reference to the following matters.

COMPUTER BATCH CONTROL PROCEDURES

The Corporation makes use of batch control procedures in a number of accounting functions to ensure data is completely and accurately input to the computer. The following deficiencies were noted in these procedures:

- a) The batch control log is not reviewed for any missing or unprocessed batches, with the result that the accounting records may not be complete.

The auditors recommended that the log be so reviewed on a monthly basis, and any exceptions resulting from the review be investigated and promptly corrected.

- b) The batch logs and edit reports are not subject to a supervisory review on a regular monthly basis to ensure that information is being processed by the computer in a complete and prompt fashion. The auditors recommended that these logs and reports be reviewed and initialed by the assistant controller each month.

FIXED ASSETS SUBSIDIARY LEDGER

The auditors noted that the Corporation does not maintain a fixed asset subsidiary ledger which, under each general ledger control account, would reflect for each fixed asset information such as date of acquisition, supplier's name, description of asset, carrying cost and location.

Such a subsidiary ledger would serve to be an invaluable source of information in establishing (a) the necessary amount of insurance coverage, (b) amounts for insurance claims, (c) the existence of the assets and (d) the profit or loss upon the disposal of a particular fixed asset. Accordingly, the auditors recommended that the Corporation establish and maintain a fixed asset subsidiary ledger in the format described in the preceding paragraph.

CASH FLOW FORECASTS

The Corporation follows the practice of preparing cash flow forecasts for a three month period beyond the date of preparation. In view of the sizeable cash needs of the Corporation, the auditors recommended that consideration be given to the preparation of cash flow forecasts extending over a longer duration of time. By extending the period of analysis for future cash needs, management would be in a better position to identify the most advantageous source of future funds for the Corporation.

PREPARATION OF BUDGETS

Although the Corporation prepares an annual financial budget prior to the commencement of each fiscal year, such budgets are not revised during the year to reflect changes that have occurred in the projected operations.

A budgetary process, when maintained on a current basis, can provide management with useful warning signals so that corrective action may be taken when necessary. Therefore, the auditors recommended that the Corporation consider revising its budgets when it appears that they are no longer realistic relative to actual operations.

We have been advised by the accounting firm that no reply has been received from the Corporation as at September 30, 1981, the date of this Report. Accordingly, we are unable to present the Corporation's views on the matters raised.

PUBLIC ACCOUNTS OF THE PROVINCE

4.1 Preparation of the Public Accounts. The Public Accounts, which are published in three volumes, are prepared under the direction of the Treasurer of Ontario as stipulated in section 13 of The Ministry of Treasury and Economics Act. This section reads as follows:

“The Public Accounts for each fiscal year shall be prepared under the direction of the Treasurer and shall be delivered to the Lieutenant Governor in Council and laid before the Assembly not later than the tenth day of the first session held in the following calendar year.”

The audit of the Public Accounts consists of an examination of the financial statements of the Province appearing in Volume 1, on which the Provincial Auditor expresses an opinion, together with a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

- a) in which the Province has investment, or
- b) which have borrowed from the Province, or
- c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of expenditures for each Ministry, such as salaries and wages, employee benefits, travelling expenses and other payments. This expenditure is shown under two main categories, Voted Appropriations and Statutory Appropriations. Such details are not reviewed by this Office prior to publication, but are subject to examination during our subsequent audits of the various Ministries.

4.2 Financial Statements of the Province. The audited financial statements of the Province for the year ended March 31, 1981, upon which the Provincial Auditor has expressed an unqualified opinion, are reproduced as Exhibit 1 of this Report. The financial statements and notes disclose in summary form the financial activities of the Province for the fiscal year, and report on the significant aspects of financial position at the close of the fiscal year.

The transactions of the Province are presented through the Statement of Consolidated Revenue Fund in summary form according to the four distinct areas of government activity:

- “Budgetary Transactions” are the operational activities involving the raising of revenue from various sources on the one hand, and the expenditure for various government programs on the other.
- “Non-Budgetary Transactions” are the lending, investment and trust administration activities.
- “Debt Transactions” are the borrowing and repayment transactions.
- “Ontario Hydro Transactions” relate to amounts borrowed by the Province on behalf of Ontario Hydro.

Regarding Ontario Hydro Transactions, the Province issues debentures and advances the proceeds to Ontario Hydro in exchange for bonds with the same terms and conditions. In any year, the overall end result of these reciprocal transactions is that payments are equal to recoveries. Since these transactions (including the ensuing retirement and debt servicing costs) are the result of a financing alternative and are not part of the Province's own budget plan, they are classified separately.

The Statement of Assets and Liabilities reflects the financial claims which have been created by cash transactions. The assets are claims by the Consolidated Revenue Fund on other parties. The liabilities are claims by others on the Consolidated Revenue Fund. As expenditures on fixed assets do not represent financial claims on other parties, they are treated as non-recoverable expenditure in the year of acquisition.

4.3 Summary of Significant Accounting Policies. On the basis of evidence examined, the Provincial Auditor arrives at an opinion as to the fairness and consistency of the Province's financial statements, and as to the degree of their compliance with established accounting principles. In most activities other than those of governments, these are known as “generally accepted accounting principles”. Because generally accepted accounting principles have not yet been established for governments, it is usual to report on the degree of compliance with stated accounting policies.

Accordingly, an integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on page 1-2 of Volume 1 of the 1980-81 Public Accounts, which forms part of Exhibit 1 of this Report.

Such Summary is included as an integral part of the financial statements in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of government accounting, especially when compared to practices followed in the private sector, the accounting policies stated in the Summary have particular importance to a reader who desires to have an adequate understanding of the Public Accounts.

4.4 Advances and Loans Repayable from Annual Expenditure Appropriations. Page 2-28 of Volume 1 of the 1980-81 Public Accounts indicates the balances of advances or investments by the Province in Corporations, Boards and Commissions other than Ontario Hydro. Additionally, page 2-31 summarizes the balances of other loans and investments by the Province, including loans to public hospitals.

The balances recorded in the Public Accounts do not necessarily represent the amounts the Province expects to truly realize. Certain of the advances and loans are, in effect, repayable out of future years' Provincial expenditure appropriations. Examples of such advances and loans are as follows:

- Advances of \$1,144,082,536 to The Ontario Universities Capital Aid Corporation as at March 31, 1981 are entirely repayable out of future years' Provincial expenditure appropriations. Under a program discontinued in 1978, the Corporation used funds advanced by the Province to purchase bonds and debentures issued by colleges, universities and related institutions for capital construction purposes. Utilizing moneys appropriated annually by the Legislature, the issuing institution redeems its debentures, with interest, over their term. The Corporation, in turn, utilizes the redemption proceeds to repay, with interest, its advances from the Province.
- The situation with respect to the repayment of advances of \$1,195,620,000 made by the Province to The Ontario Education Capital Aid Corporation is somewhat analogous to that outlined in the preceding example. Under a program discontinued in 1980, the balance of advances by the Province to this Corporation, to a large extent, is also repayable out of future years' expenditure appropriations.
- Advances to Ontario Development Corporation and Northern Ontario Development Corporation as at March 31, 1981 included amounts with respect to forgivable performance loans made by these Corporations in the outstanding amounts of \$2,348,727 and \$999,364 respectively. The major portion of advances by the Province to these Corporations with respect to forgivable performance loans is repayable out of future years' Provincial expenditure appropriations. When borrowers' loan principal is forgiven, moneys appropriated by the Legislature for the purpose of loan forgiveness are utilized by the Corporations to repay their corresponding advance indebtedness with the Province.
- Advances to the three Development Corporations (Ontario, Northern and Eastern) also include amounts regarding term loans made by the Corporations. Whereas performance loans are subject to forgiveness, term loans are repayable and interest-bearing. Each year, the Corporations write off certain term loans that are deemed to be uncollectable. When such loans are written off, moneys appropriated by the Legislature for that purpose

are used by the Corporations to repay their corresponding advances from the Province. For the year ended March 31, 1981, \$3,723,712 was so utilized.

—Loans of \$198,163,406 to public hospitals as at March 31, 1981 are partially repayable out of future years' Provincial expenditure appropriations. Under a program discontinued in 1978 (and replaced by capital grants), public hospitals used loans advanced by the Province for capital construction purposes. Using, in part, moneys appropriated annually by the Legislature, the hospitals repay their loans, with interest, over the term thereof. For the 1980-81 fiscal year, \$17,504,537 was so subsidized by way of grants from the Province to the hospitals.

4.5 Investments in Water Treatment and Waste Control Facilities. The Province's direct involvement in water treatment and waste control facilities began on April 1, 1972 when the Ontario Water Resources Commission was dissolved. The functions of the Commission were to let contracts for the building of water and sewage systems to serve municipalities and to enter into agreements with individual municipalities to recover the cost of construction and operation of the projects. When the Commission was dissolved, its former functions became the responsibility of the Ministry of the Environment, and its assets and liabilities were assumed by the Province. Included in those assets was \$230,309,709 of investments in water treatment and waste control facilities.

Since the assumption of these assets, the Province has made to March 31, 1981, additional investments of \$1,135,223,435 and recoveries of \$280,796,134. Included in these amounts are investments and recoveries of \$123,646,506 and \$69,560,404 respectively for the 1980-81 fiscal year.

Currently, the Province's investments in these facilities can be divided into the following major project types:

	1981	March 31 1980
	\$	\$
Municipal A and B	86,382,431	87,533,742
Municipal C	7,604,441	6,761,311
Provincially Owned	1,021,814,905	967,420,622
Total	1,115,801,777	1,061,715,675

MUNICIPAL A AND B

The investments in this category are for projects where the municipalities have entered into an agreement prior to April 1, 1974 with the Province. Sections 35(1) and 41 of The Ontario Water Resources Act require the municipalities to make annual payments into a sinking fund which is on deposit with the Treasurer of Ontario. As the fund attributable to any project becomes sufficient in amount,

the investment is then retired and the ownership of the project is turned over to the municipality.

MUNICIPAL C

Investments in projects under this category are for agreements with municipalities made under section 34 of the Act subsequent to April 1, 1974. The method of financing these projects is through annual blended payments of principal and interest by the municipalities, as opposed to sinking fund payments. At the end of the repayment period, the ownership of the project is turned over to the municipality.

PROVINCIALY OWNED

As part of the total assets assumed by the Province on April 1, 1972, the initial amount of \$230,309,709 of the investments in water treatment and waste control facilities was for Provincially owned projects. The projects in this category are owned by the Province in perpetuity.

An additional difference between Provincial and municipal projects is the method of recovery of the investment. Under agreements with the municipalities made under section 34 of the Act, the sewage and water works are subject to service rate billings from the Province which are based on the flows through the system, the Province's investment and operating costs. The proceeds from these billings are used to amortize the investments over periods up to forty years, to pay for operating costs and to provide for a return on the investment.

4.6 Payments Out of the Consolidated Revenue Fund. Payments out of the Consolidated Revenue Fund are classified as Expenditure (Budgetary Transactions), Disbursements and Charges (Non-Budgetary Transactions) and Retirements of Loans (Debt Transactions).

Budgetary Expenditure includes payments for goods and services, salaries, interest on public debt, subsidies and grants, and acquisition or construction of fixed assets. Disbursements are payments made in respect of investments, loans and advances, while Charges are payments made from pension funds, deposit, trust and reserve accounts. Retirements of Loans are payments in respect of the debt obligations of the Province.

Payments out of the Consolidated Revenue Fund are of two major types: those pursuant to Estimates, including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by legislation cited as The Supply Act, may be augmented by Management Board Orders. The nature of Management Board Orders is more fully explained in section 4.10.

A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of this authority is more fully explained in section 4.11. For fiscal years 1979-80 and 1980-81, no such payments have been made.

A summary of the payments out of the Consolidated Revenue Fund by type and classification is as follows:

<i>Payments re</i>	<i>1980-81</i> \$	<i>1979-80</i> \$
Voted Appropriations		
Per Legislative Assembly		
Budgetary Expenditure	14,260,512,715	13,597,479,732
Disbursements	202,116,857	173,607,255
Charges	—	—
	<hr/> 14,462,629,572	<hr/> 13,771,086,987
Per Management Board Orders		
Budgetary Expenditure	467,877,527	135,969,169
Disbursements	—	—
Charges	—	—
	<hr/> 467,877,527	<hr/> 135,969,169
Total Voted Appropriations	<hr/> 14,930,507,099	<hr/> 13,907,056,156
Statutory Appropriations		
Budgetary Expenditure	2,107,429,640	1,612,416,604
Disbursements	61,161,416	177,040,821
Charges	173,434,226	133,308,551
Retirements of Loans	168,696,712	434,623,110
Total Statutory Appropriations	<hr/> 2,510,721,994	<hr/> 2,357,389,086
Total Payments	<hr/> 17,441,229,093	<hr/> 16,264,445,242

Reference has been made in section 4.2 to Ontario Hydro transactions. Since these transactions are not part of the Province's own budget plan, and since these transactions flow through the Consolidated Revenue Fund without increasing or decreasing the overall balance in the Fund, they have not been included in the preceding summary.

4.7 Voted Appropriations—Comparison of Authorized and Actual Payments. This comparison for the fiscal year ended March 31, 1981 is as follows:

	<i>Authorized</i> \$	<i>Actual</i> \$	<i>Actual Under (Over) Authorized</i> \$
Voted Appropriations			
Per Legislative Assembly			
Budgetary Expenditure	14,614,755,900	14,260,512,715	354,243,185
Disbursements	165,534,800	202,116,857	(36,582,057)
	<hr/> 14,780,290,700	<hr/> 14,462,629,572	<hr/> 317,661,128
Per Management Board Orders			
Budgetary Expenditure	513,838,600	467,877,527	45,961,073
Disbursements	—	—	—
	<hr/> 15,294,129,300	<hr/> 14,930,507,099	<hr/> 363,622,201

It will be noted that the total actual payments of \$14,930,507,099 exceeded the amount of \$14,780,290,700 appropriated by the Legislative Assembly. This excess was in the amount of \$150,216,399. Where individual votes and items were of insufficient amount, funds in excess of those authorized by the Legislative Assembly were made available under the authority of Management Board Orders.

Total payments under the Disbursements classification exceeded the amount authorized by the Legislative Assembly by \$36,582,057. This excess can essentially be attributed to the Employment Development Fund Activity of the Ministry of Treasury and Economics. The transactions for this Activity were classified as Expenditure (transfer payments of \$125,000,000) in the 1980-81 Estimates.

Actual payments from this Activity were \$123,852,278 for the year ended March 31, 1981. However, \$41,866,693 of these payments were made in the form of Disbursements, as opposed to Expenditure. Therefore, although the total appropriation for this Activity was not exceeded, the classification of the payments thereunder differed from that appearing in the Estimates. The preceding disbursements consisted of \$30,600,000 for the purchase of Urban Transportation Development Corporation Ltd. shares, and \$11,266,693 for loans made to the Ontario Development Corporation.

4.8 Statutory Appropriations. During the 1980-81 fiscal year, Statutory Appropriation payments made under the authority of 27 Acts exceeded \$2.5 billion. This expenditure constituted 14.9 per cent of the total payments out of the Consolidated Revenue Fund. Comparative percentages for the 1979-80 and 1978-79 fiscal years were 14.5 and 12.3 respectively.

A summary, by authorizing legislation, of such payments exceeding \$50 million for the year ended March 31, 1981 (with comparative figures for 1980) is as follows:

	1980-81 \$	1979-80 \$
The Financial Administration Act	1,813,854,475	1,863,585,570
The Ontario Pensioners Property Tax Assistance Act ...	273,001,265	—
The Teachers' Superannuation Act	137,126,689	128,606,599
The Public Service Superannuation Act	88,814,471	82,897,718
The Superannuation Adjustment Benefits Act	85,058,616	67,010,554
	<u>2,397,855,516</u>	<u>2,142,100,441</u>

Expenditure under the preceding Acts accounted for 95.5 per cent and 90.9 per cent respectively of total Statutory Appropriation payments made in fiscal years 1980-81 and 1979-80. Public Debt interest expenditure of \$1.595 billion and \$1.408 billion for fiscal years 1980-81 and 1979-80 respectively is included in the amount shown under The Financial Administration Act.

Statutory payments pursuant to The Ontario Pensioners Property Tax Assistance Act, which was passed in 1980, represent property and sales tax grants paid to senior citizens, together with the costs of administering these grants. In future years, such payments will be made out of Voted Appropriations.

Excluded from the preceding figures are statutory appropriations relating to Ontario Hydro transactions which can be summarized as follows:

	1980-81 \$	1979-80 \$
The Financial Administration Act		
Ontario securities issued on behalf		
of Ontario Hydro:		
—interest paid	354,866,350	315,992,485
—securities retired	91,740,000	86,234,000
The Power Corporation Act		
Advances to Ontario Hydro	500,000,000	300,000,000
	<u>946,606,350</u>	<u>702,226,485</u>

For reference purposes, 1980-81 statutory payment activity is summarized in Exhibit 3 of this Report.

4.9 Statement of Budgetary Expenditure. The Statement of Budgetary Expenditure is contained in volume 1 of the 1980-81 Public Accounts and is reproduced in Exhibit 1 of this Report. A more detailed analysis of total budgetary expendi-

ture can be obtained by the use of the standard accounts classifications. Under these classifications the budgetary expenditure for the fiscal years 1980-81 and 1979-80 as shown on pages 2-15 and 2-15, respectively, of Volume 1 of the Public Accounts may be summarized as follows:

	1980-81		1979-80	
	\$	%	\$	%
Transfer Payments	12,056,481,738	71.6	11,020,012,779	71.8
Salaries and Wages	1,645,486,971	9.8	1,477,606,650	9.6
Other Transactions				
—Public debt expenditure (interest on debentures, etc.)	1,594,891,150	9.5	1,407,564,397	9.2
—Other	56,460,448	.3	57,263,437	.4
Services	638,239,902	3.8	518,127,172	3.4
Acquisition/Construction of				
Physical Assets	414,394,549	2.4	443,611,987	2.9
Supplies and Equipment	346,153,358	2.1	297,558,850	1.9
Employee Benefits	244,591,147	1.4	241,661,401	1.6
Transportation and Communication	146,931,752	.9	117,886,749	.7
	17,143,631,015		15,581,293,422	
Less: Recoveries from other Activities, Ministries, etc. ..	307,811,133	(1.8)	235,427,917	(1.5)
Total Budgetary Expenditure	16,835,819,882	100.0	15,345,865,505	100.0

Transfer payments represent expenditure made to individuals, organizations and other levels of government, and for which the Province does not directly receive goods or services. Such expenditure is made in accordance with legislation or established Ministry policy.

Recoveries from other Activities and Ministries relate mainly to costs incurred by certain Ministries, on behalf of other Ministries, which are subsequently recovered from the benefiting Ministries. For Public Accounts presentation purposes, these recoveries are generally not netted against the particular expenditure category or sub-category (e.g. salaries and wages, services, etc.) but are deducted in total from aggregate expenditure.

The other standard accounts classifications are largely self-explanatory; however, a more detailed description of the type of expenditure included in each classification is contained on pages viii-ix of Volume 1 of the 1980-81 Public Accounts.

In 1980-81 over \$9.7 billion, or more than 81 per cent of the total transfer payments, was expended by four Ministries. The comparable figures for 1979-80 were \$8.9 billion and 81 per cent respectively. A summary of the payments by the four Ministries, including identification of major categories, is as follows:

<i>Ministry</i>	<i>Category</i>	<i>1980-81</i> \$	<i>1979-80</i> \$
Health	Operation of hospitals and related facilities	2,440,629,083	2,160,988,137
	Payments re physicians' and practitioners' services under O.H.I.P.	1,334,297,652	1,122,035,330
	Other transfer payments	759,432,268	686,871,367
		<u>4,534,359,003</u>	<u>3,969,894,834</u>
Education	General Legislative Grants (payments to school boards)	2,140,958,151	2,120,618,585
	Payment to Teachers' Superannuation Commission	315,237,975	347,197,859
	Other transfer payments	60,537,126	13,690,293
		<u>2,516,733,252</u>	<u>2,481,506,737</u>
Colleges and Universities	Grants for Universities and related organizations	940,476,864	884,614,632
	Grants for Colleges of Applied Arts and Technology, etc.	470,630,968	448,728,157
	Other transfer payments	111,371,719	93,439,806
		<u>1,522,479,551</u>	<u>1,426,782,595</u>
Community and Social Services	Provincial and Municipal Allowances and Benefits	684,922,843	598,268,039
	Social and Developmental Services for Adults	238,004,148	187,540,905
	Child Welfare and Health Services	243,037,973	217,032,448
	Other transfer payments	58,811,008	66,502,038
		<u>1,224,775,972</u>	<u>1,069,343,430</u>
Total		<u>9,798,347,778</u>	<u>8,947,527,596</u>

4.10 Management Board Orders. Section 5 of The Management Board of Cabinet Act provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper.

Eighty Management Board Orders were issued in respect of the 1980-81 fiscal year. In total, expenditure of \$513,838,600 was so authorized, representing a significant increase from the expenditure of \$161,890,065 authorized by sixty-seven Management Board Orders in the 1979-80 fiscal year. The amounts authorized by Management Board Orders averaged approximately \$6,400,000 and ranged from \$5,500 to \$147,519,000. A listing of Management Board Orders, showing the amounts authorized and expended thereunder, is included as Exhibit 2 of this Report. A total of 441 items were included in the Management Board Orders and are detailed in the Exhibit.

By way of additional information, the Management Board Orders with respect to the 1980-81 fiscal year are summarized as follows by month of issue:

<i>Month of Issue</i>	<i>Number</i>	<i>Authorized \$</i>	<i>%</i>
June 1980	1	8,000,000	1.56
July 1980	1	10,000,000	1.95
August 1980	1	28,000	—
September 1980	1	3,000,000	.58
November 1980	1	150,000	.03
December 1980	1	185,600	.04
January 1981	6	17,205,600	3.35
February 1981	15	53,147,900	10.34
March 1981	35	374,843,500	72.95
April 1981	18	47,278,000	9.20
	80	513,838,600	100.00

In accordance with Standing Order number 51 of the Legislative Assembly, the preceding Management Board Orders have been printed in The Ontario Gazette, with an explanation of significant variances from the printed Estimates.

4.11 Special Warrants. Section 4 of The Management Board of Cabinet Act provides for the issue of a Special Warrant, when the Legislature is not in session, authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

No Special Warrants were issued in respect of the fiscal year ended March 31, 1981.

4.12 Board of Internal Economy. Section 88 of The Legislative Assembly Act reads: "The Board of Internal Economy may authorize the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same vote and the Provincial Auditor shall make special mention in his report of any transfer under this section." In respect of the 1980-81 Expenditure Estimates, the following transfers, totalling \$141,444, were made within Vote 1001:

	<i>\$</i>
from Item 10 Constituency Offices	141,444
to Item 3 Chief Election Officer	597
Item 6 Members' Indemnities	125,830
Item 11 Commission on Election Contributions and Expenses	15,017

4.13 Write-Off of Uncollectable Accounts. Section 5 of The Financial Administration Act reads as follows:

“5—(1) Where a person has an obligation or debt due to the Crown or the Crown has a claim against a person, the Treasurer may, subject to any other Act affecting such obligation, debt or claim, negotiate and accept a settlement in payment and satisfaction of such obligation, debt or claim, or may determine that any such obligation, debt or claim is uncollectable.

(2) The Lieutenant Governor in Council, on the recommendation of the Treasurer, may, if he considers it in the public interest, delete from the accounts any loss incurred in any settlement or determination made under subsection 1.

(3) The losses deleted from the accounts during any fiscal year shall be reported in the Public Accounts for that year.”

A summary of the losses deleted from the accounts for the past five years is as follows:

	\$
1976-77	7,310,545
1977-78	23,502,201
1978-79	17,454,136
1979-80	15,342,289
1980-81	10,295,160

During the 1980-81 fiscal year nine Orders in Council were passed authorizing the deletion of losses from the accounts. Deleted losses totalled \$10,295,160 and are summarized by ministry on page 3-19 of Volume 1 of the Public Accounts. The following additional comment is provided for some of the larger write-offs.

The Ministry of Revenue wrote off \$3,518,864 with respect to various unpaid taxes and GAINS overpayments. The major write-offs were as follows:

	\$
The Retail Sales Tax Act	1,323,521
The Corporations Tax Act	1,286,460
The Ontario Guaranteed Annual Income Act, (GAINS)	487,727

Uncollectable accounts of the Motor Vehicle Accident Claims Fund amounting to \$2,997,176 were written off by the Ministry of Consumer and Commercial Relations. Most of the accounts written off had balances of less than \$5,000. The major portion of the total write-offs pertained to claims/judgements at least 10 years old, on which no payments had been made for at least 5 years.

The Ministry of the Attorney General wrote off \$1,480,506 for uncollectable fines, costs and fees owed to Provincial Courts.

Uncollectable overpayments of \$1,148,588 made under The Family Benefits Act, The Disabled Persons Allowance Act and The Blind Persons Allowances Act were written off by the Ministry of Community and Social Services.

OFFICE OF THE PROVINCIAL AUDITOR

5.1 Primary Audit Responsibilities. The primary audit responsibilities of the Provincial Auditor are twofold and involve the examination of:

- a) The accounts of the Province in accordance with his appointment as auditor under The Audit Act.
- b) The accounts of agencies of the Crown in accordance with his appointment as auditor under various related statutes or other appropriate authorities.

ACCOUNTS OF THE PROVINCE

The examination of the accounts of the Province for the year ended March 31, 1981 was made in conformity with section 9(1) of the Act, which reads as follows:

“The Auditor shall audit, on behalf of the Assembly and in such manner as the Auditor considers necessary, the accounts and records of the receipt and disbursement of public money forming part of the Consolidated Revenue Fund whether held in trust or otherwise.”

In this connection, all Ministries are subject to audit in accordance with section 9(1). These audits, when combined with the year-end audit activities of the Office's Reporting and Standards Branch, enable the Provincial Auditor to express an opinion on the financial statements of the Province. A listing of Ministry audits covered by this Report appears in Exhibit 5.

ACCOUNTS OF AGENCIES OF THE CROWN

An agency of the Crown is defined in section 1(a) of The Audit Act as being “an association, authority, board, commission, corporation, council, foundation, institution, organization or other body,

- (i) whose accounts the Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body,
- (ii) whose accounts are audited by the Auditor under any other Act or whose accounts the Auditor is appointed by the Lieutenant Governor in Council to audit,
- (iii) whose accounts are audited by an auditor, other than the Auditor, appointed by the Lieutenant Governor in Council, or
- (iv) the audit of the accounts of which the Auditor is required to direct or review or in respect of which the auditor's report and the working

papers used in the preparation of the auditor's statement are required to be made available to the Auditor under any other Act,

but does not include the one that The Crown Agency Act states is not affected by that Act or that any other Act states is not a Crown agency within the meaning or for the purposes of The Crown Agency Act."

For the year ended March 31, 1981 the Provincial Auditor had direct audit responsibility for fifty-five such Agencies pursuant to his appointment as auditor by shareholders, governing bodies or under various statutes. These Agencies are listed as parts (i) and (ii) of Exhibit 6 to this Report.

Section 9(2) of the Act provides that in instances where an Agency is audited by someone other than the Provincial Auditor (those in categories iii and iv), the audit is to be performed under the direction of the Provincial Auditor, and such other auditor is required to report to the Provincial Auditor. For the year ended March 31, 1981, seven Agencies were in this category, and are shown under parts (iii) and (iv) of Exhibit 6 to this Report.

5.2 Primary Reporting Responsibilities. Under section 12 of the Act, the Provincial Auditor is required to report annually, through the Speaker, to the Legislative Assembly on the results of his examinations. Section 12(2), which summarizes the required content of the annual report, reads as follows:

"In his annual report in respect of each fiscal year, the Auditor shall report on,

- (a) the work of the Office of the Auditor, and on whether in carrying on the work of the Office the Auditor received all the information and explanations required;
- (b) the examination of accounts of receipts and disbursements of public money;
- (c) the examination of the statements of Assets and Liabilities, the Consolidated Revenue Fund and Revenue and Expenditure as reported in the Public Accounts, and shall express an opinion as to whether the statements present fairly the financial position of the Province, the results of its operations and the changes in its financial position in accordance with the accounting principles stated in the Public Accounts applied on a basis consistent with that of the preceding fiscal year together with any reservations the Auditor may have;
- (d) all special warrants issued to authorize payments, stating the date of each special warrant, the amount authorized and the amount expended;
- (e) all orders of the Management Board of Cabinet made to authorize payments in excess of appropriations, stating the date of each order, the amount authorized and the amount expended;
- (f) such matters as, in the opinion of the Auditor, should be brought to the

attention of the Assembly including, without limiting the generality of the foregoing, any matter related to the audit of agencies of the Crown or Crown controlled corporations or any cases where the Auditor has observed that,

- (i) accounts were not properly kept or public money was not fully accounted for,
- (ii) essential records were not maintained or the rules and procedures applied were not sufficient to safeguard and control public property or to effectively check the assessment, collection and proper allocation of revenue or to ensure that expenditures were made only as authorized,
- (iii) money was expended other than for the purpose for which it was appropriated,
- (iv) money was expended without due regard to economy and efficiency, or
- (v) where procedures could be used to measure and report on the effectiveness of programs, the procedures were not established or, in the opinion of the Auditor, the established procedures were not satisfactory.”

For reference and identification purposes, the preceding legislative provisions can be related to the content of this Report, or otherwise commented upon, as follows:

- 12(2)(a) : Refer to comments contained in this chapter of the Report, as well as section 1.3 of the Report.
- 12(2)(b) : Refer to “Comments on Ministry Operations” (Chapter 2)
- 12(2)(f) and “Comments on Crown Agency Operations” (Chapter 3).
- 12(2)(c) : Refer to “Provincial Auditor’s Opinion” (Exhibit 1) and “Public Accounts of the Province” (Chapter 4).
- 12(2)(d) : No Special Warrants were issued in respect of the 1980-81 fiscal year.
- 12(2)(e) : Refer to Exhibit 2.

5.3 Other Audit and Reporting Matters. In addition to the primary audit and reporting responsibilities covered in the preceding two sections, The Audit Act contains other provisions dealing with the rights and responsibilities of the Provincial Auditor in matters related to auditing and reporting. These matters are summarized as follows:

SPECIAL REPORTS

In addition to his annual report, section 12(1) of the Act permits the Provincial Auditor at any time to make a special report to the Speaker of the

Assembly relating to any matter that in the opinion of the Auditor should not be deferred until the annual report. The Speaker is then required to lay such report before the Assembly forthwith.

SPECIAL ASSIGNMENTS

Under section 16 of the Act, the Provincial Auditor is required to examine into and report on any matter referred to him in respect of the Public Accounts by a resolution of the Standing Public Accounts Committee.

Section 17 of the Act requires the Provincial Auditor to undertake such special assignments as may be required by either the Assembly, the Standing Public Accounts Committee (by resolution of the Committee), or by a Minister, provided that such special assignments do not take precedence over the Auditor's other duties. Further, if such an assignment is referred to the Provincial Auditor by a Minister, it can be declined if, in the opinion of the Auditor, it conflicts with his other duties.

During the period covered by this Report, the Office undertook four special assignments that were referred by the Standing Public Accounts Committee—

- a summary of advertising costs for the year ended March 31, 1980
- a review of the current status of the Saltfleet and North Pickering land assembly projects
- a review of the St. Marys Medical Clinic and Health Services Organization (HSO) Program of the Ministry of Health
- a review of the financial statements of the Urban Transportation Development Corporation Ltd.

INSPECTION AUDITS

In the case of grant payments made by the Province or an agency of the Crown, section 13 of the Act provides that the Provincial Auditor may perform inspection audits thereof, and also may obtain a full accounting of the disposition of such grants from the recipients. Inspection audits are defined as examinations of accounting records.

CROWN CONTROLLED CORPORATIONS

A Crown controlled corporation is defined in section 1(e) of the Act as "a corporation that is not an agency of the Crown and having 50 per cent or more of its issued and outstanding shares vested in Her Majesty in right of Ontario or having the appointment of a majority of its board of directors made or approved by the Lieutenant Governor in Council."

In the case of these corporations, section 9(3) of the Act provides that in instances where such a corporation is audited by someone other than the Provincial Auditor, such other auditor or auditors are required, upon completion of the

audit, to deliver to the Provincial Auditor a copy of the audited financial statements together with a copy of the report of their findings and recommendations to management (i.e. management letter). Additionally, the Provincial Auditor has access, if required, to the working papers and other documents related to the audit of such corporations.

A listing of Crown controlled corporations audited by public accounting firms, for the year ended March 31, 1981, is included as part of Exhibit 6 of this Report.

In addition to Crown controlled corporations audited by public accounting firms, there are certain other Crown controlled corporations whose enacting legislation does not contain any audit provision. In the case of these corporations, their revenue is not retained, but is deposited directly into the Consolidated Revenue Fund of the Province. Expenditures of these corporations are paid by Ministries out of moneys appropriated therefor by the Legislature. As a result, these corporations have no assets or liabilities for accounting purposes. The operations and transactions of such corporations, are, however, subject to audit as part of our Ministry audit process. Examples of these corporations are the Liquor Licence Board and the Niagara Escarpment Commission.

5.4 Organization and Personnel. In recent years, the workload of the Office has increased substantially. Some of the more significant factors contributing to this increase are the new responsibilities contained in The Audit Act (which came into force on April 1, 1978), the growth in Government revenue and expenditure, and a corresponding increase in the number of agencies of the Crown audited by the Office.

A review of our Office organization and manpower resources indicated that a restructuring of the Office with increased resources was essential in order to fulfill our duties to the Legislature. Therefore, as part of the 1981-82 Estimates process, the Provincial Auditor applied for, and was granted, an expanded organization and additional staff complement, effective April 1, 1981.

The Office is now divided into six operating branches, and the number of staff complement has been increased from 87 to 103. Each branch is headed by a Director, who, together with the Assistant Provincial Auditor and the Provincial Auditor, collectively comprise the Office's Management Committee. An organization chart of the Office is presented as Exhibit 4 of this Report.

POLICY FIELD BRANCHES (4)

The four Policy Field branches are primarily responsible for the audits of all Ministries and agencies of the Crown falling under each of the Provincial Government Policy Fields—General Government, Justice, Resources Development and Social Development. These branches also have responsibility for coordinating the Office's relationship with the external auditors of those Crown controlled corporations for which the Provincial Auditor is not the designated auditor.

REPORTING AND STANDARDS BRANCH

This branch is responsible for auditing the financial statements of the Province which appear in Volume 1 of the Public Accounts. The branch's responsibilities also include:

- preparation of material for the Auditor's annual Report to the Legislative Assembly and for its production;
- liaison with the Standing Public Accounts Committee, including preparation for and attendance at meetings, as well as the conduct of special assignments referred by the Committee.
- ongoing development and maintenance of the Office's Audit Manual;
- development of methodology for and performance of post-audit quality control reviews;
- coordinating and developing the Office's long-term and weekly manpower requirements and allocation.

SPECIALIZED AUDITS AND RESOURCES BRANCH

This branch has responsibilities for:

- EDP audit services, encompassing the performance of in-depth installation reviews, provision of assistance to other branches regarding audit procedures and control assessments in computerized systems, review of complex EDP applications, provision of expertise and methodology for the retrieval and analysis of information held on computer files through the use of audit software, provision of assistance in the design and analysis of statistical sampling plans, and the development and maintenance of Audit Manual material dealing with EDP;
- Value for Money audit services, encompassing the performance of in-depth management controls reviews of Ministry, Agency and government-wide programs and activities, provision of expertise and advice to other branches on questions related to the audit of management controls, and the development and maintenance of Audit Manual material dealing with management controls;
- audit staff personnel management, including recruitment, compensation planning, monitoring adequacy of training provided to students and student performance evaluations;
- development and provision of training and professional development courses and seminars for Audit Office staff.

At the date of this Report, the staff of the Office numbered eighty-five, summarized as follows:

Management committee	8
Audit managers	9

Audit supervisors	17
Auditors	11
Student auditors, audit technicians and assistants	33
Personnel and administrative	<u>7</u>
	<u>85</u>

Included in the category for student auditors, audit technicians and assistants are twenty-seven employees who are enrolled in various stages of courses leading to professional qualification through one of the following: The Certified General Accountants Association of Ontario, The Institute of Chartered Accountants of Ontario, or The Society of Management Accountants of Ontario.

Acquiring and maintaining an adequate complement of qualified professional staff is presently a major concern of the Office. As the preceding summary indicates, our present staff numbers 85, as opposed to an authorized complement of 103. The bulk of this shortage is within the categories for audit managers, audit supervisors and auditors.

In spite of ongoing recruitment efforts, we have experienced considerable difficulties in attracting and retaining professionally qualified auditors, particularly those with experience appropriate to the requirements of the Office. Although we have been successful in hiring some new staff, at the same time, some members of our existing staff have found other employment and resigned. These difficulties are, in large measure, due to a general shortage of qualified accountants in Canada. This shortage has contributed to significantly higher remuneration expectations by accountants, which in turn, has further magnified recruitment and turnover difficulties.

5.5 Nature of Audit Activities

ATTEST AND COMPLIANCE

In order to express a professional opinion on the financial statements of the Province and numerous agencies of the Crown, audits are conducted in accordance with generally accepted auditing standards, as promulgated by the Canadian Institute of Chartered Accountants. All Ministry and Agency audits include a general review of the accounting procedures and systems of internal control, together with such tests of accounting records and supporting evidence as are considered necessary in the circumstances. Additionally, considerable emphasis is placed on determining whether there is full compliance with existing Statutes and Regulations.

In connection with Ministries/Agencies whose accounting records are computerized, our audits include a review of at least one application of the computerized system. This review includes the preparation of flow charts dealing with both manual and automated procedures, a summary showing input-processing-output of computer processes, completion of an internal control questionnaire for

EDP processing, the identification of key control points, and related audit procedures to verify that the system is functioning properly and to identify any weaknesses.

In the case of audits performed in compliance with generally accepted auditing standards, auditors seek reasonable assurance through various means that fraud and error have not occurred or that, if they have occurred, they are corrected and appropriately recorded. However, it must be realized that such audits may not detect, and are not primarily designed to detect, every instance of fraud or error. The resources required to examine the circumstances behind and the support for every transaction recorded would be prohibitive. Even if the resources were available, assurance that there were no unrecorded transactions would still be lacking. Furthermore, collusion between Ministry/Agency personnel and outside parties, or among management or employees could result in apparently genuine but falsified transactions and documents being accepted by the auditor.

VALUE FOR MONEY

In addition to the preceding activities of an attest/compliance nature, section 12 of The Audit Act requires the Provincial Auditor to report on any cases where he has observed that money was expended without due regard to economy and efficiency, as well as any adverse observations related to the procedures undertaken by Ministries/Agencies to measure the effectiveness of their programs. More concisely, the Provincial Auditor is required to report to the Legislature significant instances where he has observed that management is not fulfilling its responsibilities.

While it is the Office's ultimate objective to integrate value for money auditing with our ongoing attest/compliance audit activities, the bulk of our value for money auditing to date has been conducted by a special group of teams within the Office. These teams, which have recently been increased from two to four in number, undertake reviews on a program, activity or system basis. These reviews are designed to assess management controls for attention to economy, efficiency and procedures to measure effectiveness.

In our view, the term value for money auditing has conjured up a mystique and a generally held belief of the need for highly specialized expertise. At this stage of our development, the Office does not subscribe to this belief.

The Office believes that what the Legislature is looking for is a common sense appraisal by an independent and competent professional auditor, one who recognizes good management and understands good management practices. We also believe that in most, if not all, cases such an assessment will be sufficient to provide the Legislature with the information and assurances it is seeking.

The Office realizes that the professional auditor's perspective will be enhanced by experience or academic background in fields other than auditing or accounting, e.g. management science, sociology, economics, resource manage-

ment, etc. We do not, however, feel that full-fledged expertise in these fields will normally be required.

This position, however, does not rule out the occasional use of experts. If, in the course of any of our audits, the need for an expert consultant is clearly evident, we will not be averse to using one.

5.6 Systems to Ensure Economy, Efficiency and Effectiveness. Since it is desirable that senior management of Ministries and Crown Agencies have an understanding of the Office's objectives in conducting value for money (or management controls) reviews, it is appropriate to provide definitions and examples of systems designed to ensure due regard for economy, efficiency and effectiveness. Inherent in all such systems is the important element of sound management planning and control processes being in place and operating satisfactorily.

ECONOMY

A system designed to ensure economy is one which ensures that resources are acquired at the lowest cost compatible with obtaining sufficient goods and services of suitable quality. This definition recognizes that although cost is the prime consideration when dealing with economy, quality and quantity are also important ingredients. Examples of systems designed to ensure (and/or improve) economy are:

- systems which ensure that invoices subject to cash discounts or to which interest may be added for late payment, are paid within the prescribed periods.
- purchasing and tendering systems which enable goods and services to be acquired at the best cost (i.e. lowest price compatible with quality and quantity).
- contract letting and administration systems which seek to avoid or mitigate cost overruns and late completions.
- asset acquisition review systems which seek to avoid inappropriate or unnecessary capital expenditures.
- inventory level systems which prevent over-ordering (obsolete stock) or under-ordering. Under-ordering can result in needed goods having to be purchased on an emergency basis, possibly at a higher cost.
- job description and staff grading systems which attempt to avoid higher grade (and therefore more expensive) staff being hired for tasks which can be performed by lower (and therefore less expensive) staff.

EFFICIENCY

Efficiency refers to the relationship between goods or services produced and the resources used to produce them. A system designed to ensure efficiency is one

which ensures that the maximum output is produced for any given set of resource inputs, or that minimum resource inputs are used for any given quantity and quality of service provided. Examples of systems designed to ensure (and/or improve) efficiency are:

- manpower management and performance evaluation systems. These would include systems to detect situations where too many people are involved in a process, or senior staff are performing tasks more appropriate to junior staff.
- systems to measure the levels of utilization of capital assets.
- systems which compare, on a periodic basis, output achieved (i.e. units sold, licences issued, files processed, interviews conducted, invoices issued, patient days) with input used (i.e. people or premises used to provide the output, total cost of input resources).
- systems which compare the productivity and other operating information of the program or activity, with related information obtained from similar operations in other governments or in the private sector.
- any systems which attempt to measure or promote greater output from the same input resources, or, the same output from fewer input resources.
- inventory level review systems which detect excessive or obsolete stocks.

EFFECTIVENESS

A system designed to measure and report on the effectiveness of programs is one which measures and reports on the extent to which a program achieves its pre-determined goals or other intended effects. In this regard, we recognize that the effectiveness of programs is not always easily evaluated, and that management procedures for measuring and reporting effectiveness will differ between programs.

In this regard, a program might be established with the objective of achieving a specified reduction in total energy consumption in public sector buildings over a specific period of time. A system designed to measure and report on the effectiveness of this program would include the following components:

- collecting energy consumption statistics;
- comparing these statistics to those of a base period;
- verification of the accuracy and reliability of the statistics;
- reporting on the achievement of the objective, and taking any necessary corrective action.

5.7 Staff Training and Professional Development. The establishment and maintenance of an ongoing program of both pre and post qualification profes-

sional training is considered essential to the long-term development of the Office and its staff. Employees at the student level are required to actively pursue courses of study leading to a recognized accounting designation. Their training within the Office consists of on-the-job experience together with formal training under the direction of our staff training officer. Additionally, our professional staff attend courses and seminars designed to enhance their auditing and management skills.

During the past year, our staff have attended seminars dealing with subjects such as:

- staff orientation (basic organization of the Government of Ontario and of the Office of the Provincial Auditor)
- communications (oral and report writing skills)
- audit level II (auditing objectives and methodology in the context of a complete Crown agency audit)
- EDP control and audit guidelines
- accounting and auditing annual update (current developments in accounting and auditing)
- review of working papers

Similar courses, together with a seminar dealing with an approach to the 'value for money' component of Ministry and Crown agency audits, have been scheduled for the fall and winter months.

5.8 Meeting of Legislative Auditors. Representatives of all legislative audit offices, both provincial and federal, attended the ninth annual meeting of the Canadian Conference of Legislative Auditors held from July 6 to 8, 1981 at St. Andrews By-The-Sea, New Brunswick. The meeting, which serves as a useful forum for the sharing of ideas and information, was attended by two members of this Office.

The agenda included such subjects as accounting for and managing a pension fund, management of office time and proposed freedom of information legislation re audit working papers and reports.

At the same time, representatives of the provincial and federal Public Accounts Committees held their third annual meeting. This provided an opportunity for a combined meeting of the two groups on July 8, at which an informative discussion of common concerns took place. Also, considerable time was spent on the review of the draft report of the research project of the Canadian Comprehensive Auditing Foundation, entitled "Improving Accountability—Canadian Public Accounts Committees and Legislative Auditors."

5.9 Examination of the Accounts of the Office of the Provincial Auditor. Section 28 of The Audit Act reads as follows:

“A person or persons, not employed by the Crown or the Office of the Assembly, licensed under The Public Accountancy Act and appointed by the Board, shall examine the accounts relating to the disbursements of public money on behalf of the Office of the Auditor and shall report thereon to the Board and the Chairman of the Board shall cause the report to be laid before the Assembly if it is in session or, if not, at the next ensuing session.”

The Board referred to in the preceding quotation is the Board of Internal Economy. The Office's audited statement of expenditure for the year ended March 31, 1981, which will be tabled in the Assembly during the fall session, is included as Exhibit 7 of this Report.

ACKNOWLEDGEMENTS

As this will be my final report to the Legislature, I would like to record my appreciation for having been given the opportunity to serve the Legislature and the people of Ontario in the capacity as Provincial Auditor.

At this time, I would like to express my appreciation to all members of the Legislative Assembly for their understanding and support.

I am pleased, once again, to have this opportunity to acknowledge the willing cooperation and assistance extended to myself and my colleagues by officials and staff of the ministries and agencies of the Crown during the conduct of our audits.

Finally, may I express my sincere appreciation for the faithful performance of their duties by the employees of the Office. I wish my colleagues the very best in the coming year.

A handwritten signature in dark ink, appearing to read 'F.N. Scott', written in a cursive style.

F.N. Scott, F.C.A.,
Provincial Auditor.

Toronto, September 30, 1981.

EXHIBITS

1. Province of Ontario, Audited Financial Statements, Year Ended March 31, 1981.
2. Management Board Orders—Amounts Authorized and Expended Thereunder during the Year Ended March 31, 1981.
3. Statutory Appropriations—Amounts Expended Thereunder during the Year Ended March 31, 1981.

Office of the Provincial Auditor:

4. Organization Chart
5. Ministry Audits and Special Reviews, Year Ended March 31, 1981.
6. Agency of the Crown and Crown Controlled Corporation Audits, Year Ended March 31, 1981.
7. Audited Statement of Expenditure, Year Ended March 31, 1981.
8. Status of Suggested Corrective Action and Recommendations Contained in the Provincial Auditor's Previous Annual Reports.
9. Status of Recommendations Contained in the Reports of the Standing Public Accounts Committee to the Legislative Assembly.

EXHIBIT 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Accounting Basis

The following financial statements prepared using the concept of a Consolidated Revenue Fund, have been designed primarily to provide an accounting of the financial resources appropriated by the Ontario Legislature. The fundamental requirement to report compliance with legislative authority results in a presentation of financial information in a manner significantly different from that used in the private sector. The accrual basis of accounting used in the private sector best reflects the costs incurred to earn revenues; the policies and practices followed by the Province under which the financial transactions of government ministries are recorded and displayed as Consolidated Revenue Fund cash inflows and outflows best accommodates reporting to the Legislature.

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for goods and services pertaining to the fiscal year just ended. In this regard, payments to employees for the pay period which overlaps the fiscal year end date are apportioned between the two years. Cash inflows, on the other hand, are closed at March 31 for cash received or in transit. With respect to provincial crown corporations, agencies, boards and commissions, the financial statements of the Consolidated Revenue Fund reflect only the extent to which their operations have been financed from or have contributed to the Fund for the year.

Classification of Transactions

The transactions of the Province of Ontario are presented in summary form according to the four distinct areas of government activity through the Consolidated Revenue Fund.

“Budgetary Transactions” are operational activities which include the revenues raised through taxation, premiums, fees, licences and permits, payments from the federal government under fiscal arrangements and shared-cost programs and income from investments. Expenditures on government programs include payments for goods and services, interest on the public debt, salaries, transfer payments to individuals, municipalities and institutions, subsidies and grants, and the acquisition or creation of fixed assets.

“Non-Budgetary Transactions” are the lending, investment and trust administration functions which include, as distinct from expenditure, the government lending and investment activity in various crown corporations, agencies and municipalities. All of these loans and advances are repayable or represent equity holdings supported by the assets of the corporations. Also included in this category is the activity within deposit, trust and certain special purpose accounts. “Disbursements” is the term used to describe the lending and investment transactions of the government. “Receipts” consist of the repayment of loans or recovery of investments. “Credits” is the term used to describe payments into deposit, trust and special purpose accounts. Payments made from these same accounts are termed “Charges”.

“Debt Transactions” are the borrowing and repayment transactions which include obligations issued to both non-public and the public sources of funds.

“Ontario Hydro Transactions” relate to amounts borrowed by the Province on behalf of Ontario Hydro. The Province issues securities and advances the proceeds to Ontario Hydro in exchange for bonds with the same terms and conditions. Since these transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not a part of the Province’s own budget plan, they are classified separately.

Assets and Liabilities

The assets and liabilities reported in the financial statements are financial claims which have been created by cash transactions. The recorded assets are claims by the Consolidated Revenue Fund on other parties. The liabilities are claims by other parties on the Consolidated Revenue Fund.

Since expenditures on fixed assets do not represent financial claims on other parties and are not considered to differ from any other service to the public they are not reported as assets but are expensed as budgetary items in the year of acquisition.

Debentures, notes and treasury bills are recorded as liabilities at the face value of the debt instrument, and discount, premium and commission expenses are treated as current year budgetary transactions. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario of debt instruments issued by provincial agencies, boards and commissions and bank loans under certain government programs. Other significant legal commitments and liabilities are disclosed in notes to the financial statements.

The net debt of the Province is the excess of liabilities over recorded assets. It is also the accumulation of all budgetary deficits and surpluses since Confederation. The year-to-year change in net debt is the amount by which budgetary revenues exceed or are less than budgetary expenditures.

EXHIBIT 1

STATEMENT OF CONSOLIDATED REVENUE FUND

for the year ended March 31, 1981
(\$ millions)

	Budget 1981	Actual 1981	Actual 1980
Opening Balance			
Cash and temporary investments		<u>1,569</u>	<u>1,020</u>
Budgetary Transactions			
Revenue	15,298	15,549	14,214
Expenditure	<u>16,709</u>	<u>16,836</u>	<u>15,346</u>
Budgetary deficit	(1,411)	(1,287)	(1,132)
Non-Budgetary Transactions			
Loans, Advances and Investments			
Receipts	245	310	391
Disbursements	<u>233</u>	<u>264</u>	<u>351</u>
Net Decrease in Loans, Advances and Investments	<u>12</u>	<u>46</u>	<u>40</u>
Trust Administration Functions			
Credits	629	611	641
Charges	<u>179</u>	<u>173</u>	<u>133</u>
Net Increase in Trust Administration Functions	<u>450</u>	<u>438</u>	<u>508</u>
Non-Budgetary Transactions (net)	<u>462</u>	<u>484</u>	<u>548</u>
Net Cash Requirements	<u>(949)</u>	<u>(803)</u>	<u>(584)</u>
Debt Transactions			
Proceeds of Loans	1,121	1,137	1,567
Retirements of Loans	<u>163</u>	<u>169</u>	<u>434</u>
Debt Transactions (net)	<u>958</u>	<u>968</u>	<u>1,133</u>
Ontario Hydro Transactions			
Proceeds of Debentures		500	300
Retirements of Debentures		<u>92</u>	<u>86</u>
		408	214
Related Advances, Interest and Recoveries		<u>(408)</u>	<u>(214)</u>
Ontario Hydro Transactions (net)		_____	_____
Closing Balance			
Cash and temporary investments		<u>1,734</u>	<u>1,569</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF BUDGETARY REVENUE

for the year ended March 31, 1981
(\$ millions)

	Budget 1981	Actual 1981	Actual 1980
Taxation			
Personal Income Tax (Note 12)	3,430	3,578	3,184
Retail Sales Tax	2,670	2,562	2,414
Corporations Tax	1,652	1,792	1,616
Gasoline Tax	631	618	610
Tobacco Tax	291	284	274
Mining Profits Tax	125	161	100
Motor Vehicle Fuel Tax	135	133	128
Land Transfer Tax	100	101	95
Public Utilities Income Tax	23	75	
Race Tracks Tax	55	55	51
Succession Duty	8	25	47
Federal Government Income Tax Revenue			
Guarantees	10	10	
Other	4	3	3
	<u>9,134</u>	<u>9,397</u>	<u>8,522</u>
Other Revenue			
Premiums—Ontario Health Insurance Plan	1,054	1,061	1,037
Profits from Crown Corporations and Boards			
Liquor Control Board of Ontario	423	433	400
Ontario Lottery Corporation	67	116	62
Ontario Energy Corporation	37		35
Vehicle registration fees	336	312	310
Liquor Licence Board—fees	125	126	123
Other fees and licences	165	159	141
Royalties	64	74	70
Fines and Penalties	70	73	68
Sales and Rentals	65	63	49
Utility Service Charges	52	62	56
Other	130	108	94
	<u>2,588</u>	<u>2,587</u>	<u>2,445</u>
Government of Canada			
Established Programs Financing			
Cash Contribution	1,963	1,934	1,817
Extended Health Care Services	230	230	208
Canada Assistance Plan	506	548	472
Adult Occupational Training Agreement	104	114	93
Other	251	199	167
	<u>3,054</u>	<u>3,025</u>	<u>2,757</u>
Interest on Loans, Advances and Investments	<u>522</u>	<u>540</u>	<u>490</u>
Total Budgetary Revenue	<u>15,298</u>	<u>15,549</u>	<u>14,214</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF BUDGETARY EXPENDITURE

for the year ended March 31, 1981
(\$ millions)

	Budget 1981	Actual 1981	Actual 1980
Social Development Policy Field			
Health	4,717	4,858	4,266
Education (Note 13)	2,617	2,604	2,565
Colleges and Universities	1,526	1,542	1,445
Community and Social Services	1,455	1,528	1,344
Culture and Recreation	191	204	202
Social Development Policy	2	3	2
	<u>10,508</u>	<u>10,739</u>	<u>9,824</u>
Resources Development Policy Field			
Transportation and Communications	1,199	1,212	1,139
Natural Resources	289	349	280
Housing	258	248	196
Environment	185	182	135
Agriculture and Food	182	180	159
Industry and Tourism	74	81	68
Labour	50	51	41
Energy	31	26	11
Resources Development Policy	3	3	3
	<u>2,271</u>	<u>2,332</u>	<u>2,032</u>
Justice Policy Field			
Solicitor General	192	209	186
Attorney General	165	182	157
Correctional Services	146	156	137
Consumer and Commercial Relations	73	76	68
Justice Policy	1	1	1
	<u>577</u>	<u>624</u>	<u>549</u>
General Government			
Revenue (Note 12)	474	488	194
Intergovernmental Affairs (Note 13)	469	460	687
Government Services	287	284	328
Northern Affairs	157	156	137
Treasury and Economics	147	102	148
Office of The Assembly	22	35	20
Other	22	21	19
	<u>1,578</u>	<u>1,546</u>	<u>1,533</u>
Public Debt—Interest	1,614	1,595	1,408
Contingency Fund (Note 11)	161		
	<u>16,709</u>	<u>16,836</u>	<u>15,346</u>
Total Budgetary Expenditure	<u>16,709</u>	<u>16,836</u>	<u>15,346</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

STATEMENT OF NON-BUDGETARY TRANSACTIONS

for the year ended March 31, 1981
(\$ millions)

	Budget 1981	Actual 1981	Actual 1980
Loans, Advances and Investments			
Receipts			
Corporations, boards and commissions			
The Ontario Education Capital Aid Corporation	76	78	73
The Ontario Universities Capital Aid Corporation	30	30	30
Development Corporations	24	20	22
Ontario Land Corporation	9	19	5
Ontario Mortgage Corporation	23	17	45
Ontario Housing Corporation	1	12	5
The Crop Insurance Commission of Ontario		11	
Ontario Energy Corporation			106
Other	8	8	5
Water treatment and waste control facilities	31	70	53
Loans to municipalities	25	26	22
Other loans and investments	18	19	25
	<u>245</u>	<u>310</u>	<u>391</u>
Disbursements			
Corporations, boards and commissions			
Development Corporations	37	44	39
Urban Transportation Development Corporation Ltd.		31	
Ontario Land Corporation	24	20	19
Ontario Housing Corporation	7	7	4
The Crop Insurance Commission of Ontario			38
The Ontario Education Capital Aid Corporation			69
Other	4	4	2
Water treatment and waste control facilities	126	124	139
Loans to municipalities	34	33	40
Other loans and investments	1	1	1
	<u>233</u>	<u>264</u>	<u>351</u>
Net Decrease in Loans, Advances and Investments	<u>12</u>	<u>46</u>	<u>40</u>
Trust Administration Functions			
Credits			
Pension funds	368	363	333
Deposit, trust and reserve accounts	187	185	154
The Province of Ontario Savings Office Deposits—net increase	74	63	154
	<u>629</u>	<u>611</u>	<u>641</u>
Charges			
Pension funds	93	89	84
Deposit, trust and reserve accounts	86	84	49
	<u>179</u>	<u>173</u>	<u>133</u>
Net Increase in Trust Administration Functions	<u>450</u>	<u>438</u>	<u>508</u>
Total Non-Budgetary Transactions	<u>462</u>	<u>484</u>	<u>548</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF DEBT TRANSACTIONS

for the year ended March 31, 1981
(\$ millions)

	Budget 1981	Actual 1981	Actual 1980
Proceeds of Loans			
Non-public			
Teachers' Superannuation Fund	547	569	537
Canada Pension Plan Investment Fund	550	538	988
Canada Mortgage and Housing Corporation— waste control loans	24	30	42
Total Proceeds of Loans	<u>1,121</u>	<u>1,137</u>	<u>1,567</u>
Retirements of Loans			
Non-public	25	26	23
Public			
For general purposes	138	143	86
Treasury bills (net)			325
	<u>138</u>	<u>143</u>	<u>411</u>
Total Retirements of Loans	<u>163</u>	<u>169</u>	<u>434</u>
Debt Transactions (net)	<u>958</u>	<u>968</u>	<u>1,133</u>

STATEMENT OF ONTARIO HYDRO TRANSACTIONS

for the year ended March 31, 1981
(\$ millions)

	1981	1980
Proceeds of debentures (Note 2)	500	300
Retirements of debentures	92	86
Net increase in debentures for Ontario Hydro purposes	<u>408</u>	<u>214</u>
Related advances, interest and recoveries		
Loans to Ontario Hydro	500	300
Interest on debentures	355	316
Recovery of interest and debenture retirements	(447)	(402)
Related advances, interest and recoveries (net)	<u>408</u>	<u>214</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

EXHIBIT 1

STATEMENT OF ASSETS AND LIABILITIES

as at March 31, 1981
(\$ millions)

	1981	1980
Assets		
Cash and temporary investments (Note 1)	1,734	1,569
Advances to Ontario Hydro, secured by bonds (Note 2)	4,190	3,782
Advances and investments—other corporations, boards and commissions (Note 3)	4,131	4,220
Investments in water treatment and waste control facilities (at cost less recoveries) (Note 4)	1,116	1,062
Loans to municipalities	367	360
Other loans and investments (Note 5)	212	230
Total recorded assets	11,750	11,223
Net debt	11,988	10,701
	<u>23,738</u>	<u>21,924</u>
Liabilities		
Deposits with The Province of Ontario Savings Office	623	560
Pension funds (Note 6)	2,090	1,816
Deposit, trust and reserve accounts	605	504
Advances payable	15	66
Debentures and notes (Note 7)	20,405	18,978
	<u>23,738</u>	<u>21,924</u>
Contingent liabilities (Note 8)	<u>8,289</u>	<u>7,593</u>

See accompanying Summary of Significant Accounting Policies and Notes to the Financial Statements.

Approved on behalf of the Ministry of Treasury and Economics.

A. RENDALL DICK, Deputy Treasurer of Ontario and Deputy Minister of Economics.

G. McINTYRE, F.C.A., Assistant Deputy Minister, Office of the Treasury.

EXHIBIT 1

NOTES TO THE FINANCIAL STATEMENTS
(all figures in millions of dollars)

1. Cash and Temporary Investments

Temporary investments are recorded at cost and are predominantly short term securities issued or guaranteed by Canadian chartered banks. Also included are debentures and bonds issued or guaranteed by the Province which, at March 31, 1981, had a cost value of \$60 million (1980 \$56 million) and a market value of \$48 million (1980 \$44 million).

2. Advances to Ontario Hydro

The Province, in addition to guaranteeing Ontario Hydro debt obligations, has issued \$3,690 million of U.S. dollar debentures on behalf of Ontario Hydro which have been recorded at par. At March 31, 1981 the Canadian dollar equivalent was \$4,380 million. In 1980-81, the Province also borrowed \$500 million for Ontario Hydro from the Canada Pension Plan in Canadian funds. The proceeds of all such borrowings have been advanced to Ontario Hydro in exchange for bonds with the same terms and conditions as the securities of the Province.

3. Advances and investments—Other Corporations, Boards and Commissions

	1981	1980
The Ontario Education Capital Aid Corporation	\$1,196	\$1,274
The Ontario Universities Capital Aid Corporation	1,144	1,174
Ontario Mortgage Corporation	568	585
Ontario Land Corporation	517	516
Ontario Housing Corporation	190	195
Development Corporations	240	216
Other	276	260
	<u>\$4,131</u>	<u>\$4,220</u>

The Ontario Education Capital Aid Corporation has received advances from the Province to purchase bonds or debentures issued by school boards for capital expansion programs. The securities held by the Corporation are the obligations of the individual school boards. However, under current support arrangements for local school boards, approved debt charges are subject to Provincial grants averaging 75%. Effective April 1, 1980 the loan program was replaced by grants to school boards from the Ministry of Education. The Corporation will continue to administer the repayment of the outstanding loans.

The Ontario Universities Capital Aid Corporation, under a program which was discontinued in 1978, received advances from the Province to purchase bonds or debentures issued by provincial universities, colleges, the Art Gallery of Ontario, the Royal Ontario Museum and municipalities on behalf of public libraries, for approved capital construction projects. The securities held by the Corporation are the obligations of the issuing institutions. Effective April 1, 1978 the loan program was replaced by grants to the institutions which in 1981 amounted to \$114 million (1980 \$115 million) from the Province to cover the full amount of principal and interest due to the Corporation. The Corporation will continue to administer the repayment of the outstanding loans.

The Ontario Mortgage Corporation has used advances from the Province to provide primary and secondary mortgage financing for eligible persons. The Province paid subsidies amounting to \$2.0 million in 1981 (\$2.3 million in 1980) to the Corporation for certain loans made at interest rates lower than cost.

The Ontario Land Corporation was established in 1974 to assemble land for new communities and industrial parks. In 1978 the Corporation's objects were broadened to include land development. In this connection, certain assets of the Ontario Housing Corporation including land leases, mortgages, mortgage guarantees, agreements for sale and lands scheduled for residential, industrial and commercial development, were transferred along with related liabilities to the Ontario Land Corporation with effect from January 1, 1979. The Province charges no inter-

est on advances being used to finance land holdings. At March 31, 1981 these advances were \$399 million (1980 \$400 million).

The Ontario Housing Corporation plans, constructs and manages residential housing projects. Financing is provided by the Province and the Canada Mortgage and Housing Corporation. The Province's share of the subsidy for the calendar year 1980 was \$124 million (1979 \$102 million). As described above, certain assets and liabilities were transferred to the Ontario Land Corporation with effect from January 1, 1979.

The Ontario Development Corporation and the associated Eastern Ontario Development Corporation and Northern Ontario Development Corporation provide loans and arrange for provincial guarantees of bank loans to qualified enterprises. The Province has purchased an equity of \$7 million and has advanced all funding for the lending programs of the Corporations. Through its budgetary expenditures, the Province also transfers to the Corporations an amount to defray the costs of all administrative expenses, loans made at low interest rates, certain loan forgiveness, honouring guarantees, and writing off loans and losses. In 1981 these transfers amounted to \$24.3 million (1980 \$24.4 million).

4. Investments in Water Treatment and Waste Control Facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreement with the municipalities. Agreements covering \$1,022 million of the investment are for provincially-owned projects which are subject to service rate billings. The proceeds from billings are used to amortize the investment over periods up to forty years, to pay for operating costs and to provide a return on the investment. Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in such funds (included in deposit, trust and reserve accounts) was \$44 million at March 31, 1981 (1980 \$41 million). Since 1978-79, the Province has changed its policy and is phasing out its direct investment in favour of assisting municipalities by direct grants.

5. Other Loans and Investments

Included in other loans and investments are Ministry of Health capital construction loans to public hospitals amounting to \$198 million (1980 \$217 million). During the current fiscal year, the Province made grants of \$17.5 million (1980 \$19.3 million) to assist public hospitals in meeting principal and interest payments. No new loans have been made since 1978 when the Ministry changed its public hospitals capital financial support program from loans to grants.

6. Pension Funds

	1981	1980
Public Service Superannuation Fund	\$2,072	\$1,800
Legislative Assembly Retirement Allowances Account	18	16
	<u>\$2,090</u>	<u>\$1,816</u>

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less pension payments for both the Public Service Superannuation Fund and Legislative Assembly Retirement Allowances Account. The amounts recorded by the Province are essentially the sole assets of these pension plans.

Based on the latest actuarial report as at December 31, 1979, the Public Service Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of \$83 million, upon which an interest contribution of \$7 million is required to be credited annually in accordance with The Pension Benefits Act.
2. Residual unfunded liabilities of \$233.5 million which are required to be amortized by annual payments of \$33 million until January 1, 1990 and \$32 million on January 1, 1991 and 1992.

As at March 31, 1981, the Province had made all scheduled payments.

An actuarial review of the Legislative Assembly Retirement Allowances Account as at March 31, 1981 revealed a deficit of \$957 thousand.

7. Debentures and Notes

Years of Maturity March 31	1981 Payable in				1980
	Canadian Dollars	United States Dollars	Deutsche Marks	Total	Total
1981	\$	\$	\$	\$	\$ 140
1982	62	40	7	109	109
1983	122	125	7	254	254
1984	106	82	7	195	195
1985	103		3	106	106
1986	214	99	3	316	
1-5 years	607	346	27	980	804
6-10 years	2,472	44	6	2,522	2,314
11-15 years	4,478			4,478	3,831
16-20 years	7,427	479		7,906	7,360
21-25 years	1,389	1,102		2,491	2,305
26-30 years	174	1,738		1,912	2,277
31-35 years	69			69	51
36-40 years	47			47	36
	<u>\$16,663</u>	<u>\$ 3,709</u>	<u>\$ 33</u>	<u>\$20,405</u>	<u>\$18,978</u>

The U.S. dollar debenture liability of \$3,709 million is recorded at par with the Canadian dollar and with the exception of \$18.1 million, has been incurred on behalf of Ontario Hydro. At March 31, 1981 the Canadian dollar equivalent was \$4,401 million. As explained in note 2, the Province holds an asset of U.S. dollar bonds of Ontario Hydro recorded at a par value of \$3,690.4 million. These bonds have the same terms and conditions as the securities of the Province and at March 31, 1981 the Canadian dollar equivalent was \$4,380 million.

The Province has borrowings of 114 million Deutsche Marks recorded at \$33 million, the Canadian dollar equivalent at the time of issue. At March 31, 1981 the Canadian dollar equivalent was \$65 million.

8. Contingent Liabilities

The Province is guarantor of certain debt obligations as follows:

	1981	1980
Debentures, bonds and notes		
Ontario Hydro	\$8,182	\$7,502
Other Provincial crown agencies	5	10
	<u>8,187</u>	<u>7,512</u>
Bank loans guaranteed		
Provincial crown agencies	3	8
Corporations and individuals through various government programs	99	73
	<u>102</u>	<u>81</u>
	<u>\$8,289</u>	<u>\$7,593</u>

9. Long-Term Leases

The Province has long-term lease commitments for accommodation amounting to \$168 million to 1986 and an additional \$118 million for years beyond 1986. The lease payments made in 1981 amounted to \$48 million.

10. Teachers' Superannuation Fund

Through the budgetary expenditures of the Ministry of Education the Province makes annual contributions to the Teachers' Superannuation Fund (which is administered by the Teachers' Superannuation Commission) equal in amount to contributions by members. Further, the Province is committed to paying any deficiency in the fund.

Based on the latest actuarial report as at December 31, 1978, the Teachers' Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of \$328 million upon which an interest contribution of \$23 million is required to be credited annually in accordance with The Pension Benefits Act.
2. Residual unfunded liabilities of \$768 million which are required to be amortized by annual payments of \$97 million until December 31, 1989 and \$94 million on December 31, 1990.

As at March 31, 1981 the Province had made all scheduled payments.

11. Budget Figures

The comparative budget figures in the financial statements were taken from the 1980 Ontario Budget which was presented by the Treasurer of Ontario to the Legislative Assembly on April 22, 1980.

The Contingency Fund budget figure in the Statement of Budgetary Expenditure is a provision for the cost of salary and employee benefit revisions likely to be approved in the fiscal year. These revisions, when paid however, are charged to the affected appropriations of each ministry.

12. Property and Sales Tax Grants

As a result of legislation, payments were made during 1980-81 for two new grants for senior citizens, the property tax grant and the sales tax grant. These payments directly increase the budgetary expenditure of the Ministry of Revenue by \$268 million.

Persons who are eligible for these grants are not entitled to claim property tax and sales tax credits for the same year. However in 1980-81 the Province's personal income tax revenue was reduced by credits claimed by individuals for the 1979 tax year since tax credits are normally refunded to individuals in the calendar year after the year for which they are claimed. This practice is consistent with that of previous years.

13. Accelerated Local Government Grants

In March 1980, the government tabled Supplementary Estimates to permit earlier payment of grants to school boards and municipal governments. The budgetary expenditures for the Ministry of Education and the Ministry of Intergovernmental Affairs were increased by \$82 million and \$143 million respectively for payments which otherwise would have been made in the 1980-81 fiscal year.

14. Comparative Figures

The 1980 comparative figures have been reclassified where necessary to conform with the 1981 financial statement presentation.

EXHIBIT 1

PROVINCIAL AUDITOR'S OPINION

I have examined the statement of assets and liabilities of the Province of Ontario as at March 31, 1981 and the statements of consolidated revenue fund, budgetary revenue, budgetary expenditure, non-budgetary transactions, debt transactions and Ontario Hydro transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Province as at March 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies set out in the Summary of Significant Accounting Policies on page 1-2 of Volume 1 of the Public Accounts, which have been applied on a basis consistent with that of the preceding year.

In accordance with section 12 of The Audit Act, 1977, as amended, a report will be made to the Speaker of the Legislative Assembly.

A handwritten signature in dark ink, appearing to read 'F. N. Scott', is written in a cursive style.

F. N. Scott, F.C.A.,
Provincial Auditor.

Toronto, September 4, 1981.

MANAGEMENT BOARD ORDERS

AMOUNTS AUTHORIZED AND EXPENDED THEREUNDER
DURING THE YEAR ENDED MARCH 31, 1981

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Office of the Lieutenant Governor			
	Office of The Lieutenant Governor Program		
Mar. 6, 1981	Office of The Lieutenant Governor	10,000	10,000
Mar. 15, 1981	Office of The Lieutenant Governor	13,400	13,367
		<u>23,400</u>	<u>23,367</u>
Office of the Premier			
	Office of The Premier Program		
Mar. 6, 1981	Office of The Premier	119,400	63,176
Cabinet Office			
	Cabinet Office Program		
Mar. 6, 1981	Main Office	115,100	101,783
Management Board of Cabinet			
	Ministry Administration Program		
Mar. 15, 1981	Main Office	71,400	26,642
	Management Audit Program		
Mar. 15, 1981	Personnel Audit	23,600	3,544
	Employee Relations Program		
Mar. 6, 1981	Public Service Appeal Boards	183,600	157,417
Mar. 15, 1981	Staff Relations	14,000	—
	Government Personnel Services Program		
Apr. 14, 1981	French Language Services	155,000	140,604
Mar. 15, 1981	Staff Training Services	140,000	61,988
		<u>587,600</u>	<u>390,195</u>
Ministry of Government Services			
	Ministry Administration Program		
Apr. 14, 1981	Financial Services	40,000	—
Mar. 15, 1981	Personnel Services	30,000	25,393
Mar. 15, 1981	Legal Services	39,900	37,407
	Provision of Accommodation Program		
Mar. 6, 1981	Capital Construction	2,784,500	2,784,500
Mar. 15, 1981	Capital Construction	1,892,400	1,892,400
Apr. 14, 1981	Capital Construction	1,339,300	1,247,620

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Government Services (cont'd)			
Mar. 6, 1981	Accommodation Alterations	500,000	500,000
Apr. 14, 1981	Accommodation Alterations	271,500	262,022
Apr. 14, 1981	Real Property Management	75,700	—
	Upkeep of Accommodation Program		
Mar. 15, 1981	Program Administration	419,600	300,030
Mar. 15, 1981	Repairs, Operation and Maintenance	1,675,900	1,675,900
Apr. 14, 1981	Repairs, Operation and Maintenance	1,399,700	1,271,944
	Supply and Services Program		
Mar. 6, 1981	Publications and Printing Services	350,000	255,035
Mar. 6, 1981	Collection Services	35,000	35,000
Apr. 14, 1981	Collection Services	15,000	4,892
Apr. 14, 1981	Legislative Services	35,000	9,175
Mar. 15, 1981	Government Payments	493,000	333,446
Apr. 14, 1981	Employee Health Services	10,000	—
Mar. 15, 1981	Employee Data Services	33,100	—
		11,439,600	10,634,764
Ministry of Intergovernmental Affairs			
	Ministry Administration Program		
Feb. 3, 1981	Main Office	331,700	310,574
Feb. 13, 1981	Protocol Services	71,600	70,666
Apr. 14, 1981	Legal Services	30,000	26,586
	Intergovernmental Affairs Program		
Mar. 6, 1981	Intergovernmental Affairs	150,000	112,022
Apr. 14, 1981	Intergovernmental Affairs	8,800	—
		592,100	519,848
Ministry of Northern Affairs			
	Ministry Administration Program		
Mar. 6, 1981	Main Office	211,000	185,936
Mar. 6, 1981	Analysis and Planning	38,000	17,538
	Project Development and Community Relations Program		
Mar. 6, 1981	Regional and Community Relations	149,300	—
Mar. 6, 1981	Project Development and Implementation .	126,800	—
	Regional Priorities and Development Program		
Mar. 6, 1981	Regional Priorities	5,709,000	5,582,135
Mar. 6, 1981	Northern Roads	500,000	54,001
Mar. 6, 1981	Air Services	1,915,000	1,914,992
		8,649,100	7,754,602
Ministry of Revenue			
	Ministry Administration Program		
Feb. 20, 1981	Analysis and Planning	34,700	34,700
Mar. 15, 1981	Analysis and Planning	21,000	12,834

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Revenue (cont'd)			
Mar. 15, 1981	Legal Services	48,300	48,197
Mar. 15, 1981	Audit Services	12,000	4,791
Mar. 15, 1981	Financial Services	62,400	58,763
Mar. 15, 1981	Supply and Office Services	87,100	64,864
Mar. 15, 1981	Personnel Services	46,000	46,000
Apr. 14, 1981	Personnel Services	16,000	7,893
Mar. 15, 1981	Communications Services	40,900	40,900
Apr. 14, 1981	Communications Services	700	67
Mar. 15, 1981	Systems Development Services	158,000	158,000
Apr. 14, 1981	Systems Development Services	17,900	402
Administration of Taxes Program			
Mar. 15, 1981	Special Investigations	12,800	—
Feb. 20, 1981	Revenue Research	56,700	56,508
Mar. 15, 1981	Corporations Tax and Other Taxes	434,300	434,300
Apr. 14, 1981	Corporations Tax and Other Taxes	216,600	216,358
Feb. 20, 1981	Gasoline Tax and Other Taxes	229,600	229,600
Mar. 15, 1981	Gasoline Tax and Other Taxes	245,500	244,687
Mar. 15, 1981	Retail Sales Tax and Other Taxes	495,900	495,900
Apr. 14, 1981	Retail Sales Tax and Other Taxes	174,100	165,217
Guaranteed Income and Tax Credit Program			
Feb. 3, 1981	Administration	17,000,000	16,571,905
Mar. 15, 1981	Administration	170,500	—
Apr. 14, 1981	Administration	69,100	—
Municipal Assessment Program			
Mar. 15, 1981	Administration	49,700	49,700
Apr. 14, 1981	Administration	59,500	55,043
Mar. 15, 1981	Assessment Standards	56,200	39,120
Mar. 15, 1981	Assessment Field Operations	2,910,200	2,910,200
Apr. 14, 1981	Assessment Field Operations	221,000	150,496
		22,946,700	22,096,445
Ministry of Treasury and Economics			
Ministry Administration Program			
Apr. 14, 1981	Main Office	54,000	4,758
Feb. 20, 1981	Financial Services	25,000	24,605
Feb. 20, 1981	Supply and Office Services	230,000	136,333
Feb. 20, 1981	Personnel Services	56,000	47,793
Apr. 14, 1981	Information Services	19,000	3,706
Treasury Program			
Mar. 6, 1981	Treasury	174,000	29,417
Central Statistical Services Program			
Feb. 20, 1981	Central Statistical Services	110,000	—
		668,000	246,612
Ministry of the Attorney General			
Law Officer of the Crown Program			
Mar. 6, 1981	Attorney General	51,000	51,000
Apr. 14, 1981	Attorney General	7,000	6,934

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of the Attorney General (cont'd)			
Jan. 6, 1981	Policy Development	300,000	300,000
Mar. 6, 1981	Policy Development	310,000	310,000
Apr. 14, 1981	Policy Development	45,000	35,228
Apr. 14, 1981	Law Research (Ontario Law Reform Commission)	18,000	14,354
Jan. 6, 1981	Royal Commissions	370,000	304,432
Administrative Services Program			
Mar. 6, 1981	Main Office	5,065,000	5,037,744
Mar. 6, 1981	Financial Services	140,000	139,996
Mar. 6, 1981	Personnel Services	40,000	31,308
Mar. 6, 1981	Analysis and Planning	6,000	—
Guardian and Trustees Services Program			
Mar. 6, 1981	Official Guardian	150,000	150,000
Apr. 14, 1981	Official Guardian	180,000	179,969
Mar. 6, 1981	Public Trustee	300,000	300,000
Apr. 14, 1981	Public Trustee	80,000	74,074
Mar. 6, 1981	Supreme Court Accountant	26,000	23,870
Crown Legal Services Program			
Mar. 6, 1981	Criminal Law Division	1,600,000	1,349,587
Mar. 6, 1981	Civil Law Division	100,000	68,140
Courts Administration Program			
Mar. 6, 1981	Program Administration	30,000	23,798
Mar. 6, 1981	Supreme Court of Ontario	725,000	725,000
Apr. 14, 1981	Supreme Court of Ontario	20,000	19,374
Mar. 6, 1981	County and District Courts	2,900,000	2,900,000
Apr. 14, 1981	County and District Courts	114,000	113,997
Mar. 6, 1981	Small Claims Courts	480,000	480,000
Apr. 14, 1981	Small Claims Courts	60,000	59,953
Mar. 6, 1981	Provincial Courts	3,130,000	3,129,583
Administrative Tribunals Program			
Mar. 6, 1981	Assessment Review Court	310,000	309,969
Mar. 6, 1981	Criminal Injuries Compensation Board	475,000	465,983
Mar. 6, 1981	Ontario Municipal Board	380,000	380,000
Apr. 14, 1981	Ontario Municipal Board	40,000	32,631
		17,452,000	17,016,924

Ministry of Consumer and Commercial Relations

Ministry Administration Program			
Feb. 20, 1981	Main Office	133,600	133,153
Mar. 15, 1981	Financial Services	110,400	106,480
Mar. 15, 1981	Supplies and Office Services	91,700	83,521
Mar. 15, 1981	Personnel Services	30,600	26,673
Mar. 15, 1981	Information Services	358,200	355,442
Mar. 15, 1981	Analysis and Planning	59,000	39,807
Commercial Standards Program			
Mar. 15, 1981	Securities	416,900	407,258
Feb. 20, 1981	Pension Plans	136,800	126,968
Mar. 15, 1981	Financial Institutions	558,500	527,389
Mar. 15, 1981	Companies	21,700	6,543
Feb. 20, 1981	Business Practices	813,300	808,477

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Consumer and Commercial Relations (cont'd)			
	Technical Standards Program		
Mar. 15, 1981	Pressure Vessels Safety	124,800	123,815
Mar. 15, 1981	Elevating Devices	189,400	185,153
Mar. 15, 1981	Fuels Safety	164,400	164,323
Mar. 15, 1981	Upholstered and Stuffed Articles	5,100	5,023
	Public Entertainment Standards Program		
Mar. 15, 1981	Regulation of Horse Racing	105,300	104,077
Mar. 15, 1981	Theatres, Lotteries and Athletics Commissioner	29,700	25,483
	Property Rights Program		
Mar. 15, 1981	Real Property Registration	913,400	912,233
Mar. 15, 1981	Legal and Survey Standards	143,800	140,726
	Registrar General Program		
Mar. 15, 1981	Registrar General	300,600	292,634
	Liquor Licence Program		
Mar. 15, 1981	Liquor Licence Board of Ontario	325,600	322,818
		5,032,800	4,897,996
Ministry of Correctional Services			
	Ministry Administration Program		
Mar. 6, 1981	Financial Services	198,800	128,735
Mar. 6, 1981	Supply and Office Services	4,700	3,632
Mar. 6, 1981	Personnel Services	1,700	—
Mar. 6, 1981	Information Services	39,600	30,820
Mar. 6, 1981	Analysis and Planning	31,700	20,858
Mar. 6, 1981	Audit Services	25,500	15,504
	Institutional Program		
Mar. 6, 1981	Program Administration	139,600	109,821
Mar. 6, 1981	Care, Treatment and Training	9,006,600	8,422,432
Mar. 6, 1981	Institutional Program Development	270,200	229,430
Feb. 13, 1981	Institutional Staff Training	191,000	190,202
	Community Program		
Nov. 4, 1980	Program Administration	150,000	140,222
Mar. 6, 1981	Program Administration	146,900	—
Mar. 6, 1981	Probation and Parole Services	1,138,900	1,136,531
Mar. 6, 1981	Ontario Board of Parole Services	94,700	47,021
Mar. 6, 1981	Community Resource Centre Services	14,500	12,890
Feb. 13, 1981	Community Program Development	125,700	110,784
Mar. 6, 1981	Community Program Staff Training	21,600	—
		11,601,700	10,598,882
Ministry of the Solicitor General			
	Ministry Administration Program		
Feb. 13, 1981	Main Office	26,000	26,000
Apr. 14, 1981	Main Office	100,000	96,633
Feb. 13, 1981	Financial Services	79,000	78,851
Feb. 13, 1981	Supply and Office Services	14,000	2,747
Feb. 13, 1981	Personnel Services	87,000	73,645

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of the Solicitor General (cont'd)			
Feb. 13, 1981	Analysis and Planning	15,000	10,454
Feb. 13, 1981	Legal Services	15,000	3,181
Feb. 13, 1981	Audit Services	14,000	7,049
Public Safety Program			
Feb. 13, 1981	Program Management	472,300	450,145
Feb. 13, 1981	Centre of Forensic Sciences	164,000	164,000
Apr. 14, 1981	Centre of Forensic Sciences	70,000	19,597
Feb. 13, 1981	Fire Safety Services	292,000	292,000
Apr. 14, 1981	Fire Safety Services	115,000	113,422
Feb. 13, 1981	Coroners' Investigations and Inquests	76,000	14,367
Feb. 13, 1981	Forensic Pathology	19,000	—
Supervision of Police Forces Program			
Feb. 13, 1981	Ontario Police College	141,000	81,345
Feb. 13, 1981	Ontario Police Arbitration Commission	5,000	5,000
Apr. 14, 1981	Ontario Police Arbitration Commission	10,000	7,348
Management and Support Services Program			
Feb. 13, 1981	Office of the Commissioner	42,000	24,417
Feb. 13, 1981	Staff Inspection	13,000	—
Feb. 13, 1981	Properties	115,000	115,000
Apr. 14, 1981	Properties	250,000	156,160
Feb. 13, 1981	Transport	179,000	179,000
Apr. 14, 1981	Transport	533,000	473,521
Feb. 13, 1981	Communications	32,000	—
Feb. 13, 1981	Quartsmaster Stores	44,000	39,755
Feb. 13, 1981	Records	41,000	32,541
Operations Program			
Feb. 13, 1981	Special Services	945,000	945,000
Apr. 14, 1981	Special Services	495,000	431,047
Feb. 13, 1981	Law Enforcement	15,040,700	14,727,437
Feb. 13, 1981	Ontario Government Protective Service	187,000	130,059
Feb. 13, 1981	Registration	26,000	17,175
Feb. 13, 1981	Community Services	69,000	68,654
		19,726,000	18,785,550

Resources Development Policy

Resources Development Policy Program			
Aug. 12, 1980	Royal Commission on Electric Power Planning	28,000	25,963

Ministry of Agriculture and Food

Ministry Administration Program			
Mar. 6, 1981	Main Office	202,000	202,000
Apr. 14, 1981	Main Office	45,000	15
Mar. 6, 1981	Financial Services	60,000	30,582
Mar. 6, 1981	Supply and Office Services	46,000	—
Mar. 6, 1981	Personnel Services	75,000	73,493
Mar. 6, 1981	Information Services	374,000	342,865
Mar. 6, 1981	Analysis and Planning	77,000	56,764
Mar. 6, 1981	Legal Services	25,000	22,981
Mar. 6, 1981	Audit Services	36,000	27,399

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Agriculture and Food (cont'd)			
	Agricultural Production Program		
Mar. 6, 1981	Administration	12,000	—
Mar. 6, 1981	Advisory Services	2,777,000	2,644,008
Mar. 6, 1981	Other Assistance to Primary Food Production	9,000,000	—
	Agricultural Marketing Program		
Mar. 6, 1981	Administration	18,000	9,716
Mar. 6, 1981	Marketing	175,000	175,000
Apr. 14, 1981	Marketing	35,000	16,980
Mar. 6, 1981	Quality Control of Agricultural Products ...	1,181,000	1,106,415
	Agricultural Education and Research Program		
Mar. 6, 1981	Administration	35,000	9,399
Mar. 6, 1981	Education	270,000	—
Mar. 6, 1981	Research	1,040,000	1,040,000
Apr. 14, 1981	Research	240,100	160,312
Mar. 6, 1981	Ontario Agricultural Museum	82,000	44,245
		15,805,100	5,962,174
Ministry of Energy			
	Ministry Administration Program		
Feb. 13, 1981	Main Office	325,000	269,568
	Regulatory Affairs Program		
Mar. 24, 1981	Program Administration	95,000	40,068
		420,000	309,636
Ministry of the Environment			
	Ministry Administration Program		
Mar. 6, 1981	Main Office	75,000	50,582
Mar. 6, 1981	Financial Services	221,000	180,156
Mar. 6, 1981	Supply and Office Services	141,000	140,989
Mar. 6, 1981	Personnel Services	147,000	50,530
Mar. 15, 1981	Personnel Services	3,000	—
Jan. 20, 1981	Information Services	734,000	734,000
Mar. 15, 1981	Information Services	18,000	2,589
Mar. 6, 1981	Analysis and Planning	74,000	23,755
Mar. 6, 1981	Legal Services	70,000	70,000
Apr. 21, 1981	Legal Services	25,000	24,523
Mar. 6, 1981	Audit Services	8,000	—
	Environmental Assessment and Planning Program		
Mar. 6, 1981	Program Administration	281,000	—
Mar. 6, 1981	Air Resources	381,000	381,000
Mar. 15, 1981	Air Resources	12,000	11,697
Mar. 6, 1981	Water Resources	319,000	190,037
Mar. 15, 1981	Water Resources	32,000	—
Mar. 6, 1981	Pollution Control Planning	217,000	160,510
Mar. 15, 1981	Pollution Control Planning	31,000	—
Mar. 6, 1981	Environmental Approvals and Land Use ...	160,000	72,966
Mar. 6, 1981	Royal Commission on the Northern Environment	19,000	—

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of the Environment (cont'd)			
Environmental Control Program			
Mar. 6, 1981	Program Administration	321,000	321,000
Mar. 15, 1981	Program Administration	12,000	45
Mar. 6, 1981	Industrial Abatement	792,000	762,202
Mar. 15, 1981	Industrial Abatement	45,000	—
Mar. 6, 1981	Municipal and Private Abatement	624,600	180,303
Mar. 15, 1981	Municipal and Private Abatement	62,000	—
Mar. 6, 1981	Plant Development and Construction	204,000	—
Mar. 6, 1981	Plant Operations	1,812,000	1,349,167
Mar. 15, 1981	Plant Operations	8,000	—
Mar. 6, 1981	Laboratory and Technical Support	915,000	915,000
Mar. 15, 1981	Laboratory and Technical Support	142,000	58,837
Waste Management Program			
Mar. 6, 1981	Waste Utilization	110,000	70,926
Mar. 15, 1981	Waste Systems Planning	18,000	—
		8,033,600	5,750,814
Ministry of Housing			
Ministry Administration Program			
Mar. 6, 1981	Supply and Office Services	311,800	154,668
Community Planning Program			
Mar. 6, 1981	Project Planning	45,000	44,925
Ontario Housing Corporation Program			
Mar. 6, 1981	Ontario Housing Corporation	7,950,000	6,729,496
Ontario Mortgage Program			
Mar. 6, 1981	Mortgage Administration	120,000	59,914
		8,426,800	6,989,003
Ministry of Industry and Tourism			
Ministry Administration Program			
Mar. 6, 1981	Financial Services	53,400	53,400
Apr. 14, 1981	Financial Services	21,000	20,543
Mar. 6, 1981	Supply and Office Services	118,800	118,354
Mar. 6, 1981	Personnel Services	68,400	54,496
Jan. 20, 1981	Information Services	444,000	444,000
Mar. 6, 1981	Information Services	231,000	231,000
Apr. 14, 1981	Information Services	27,000	26,640
Mar. 6, 1981	Audit Services	5,000	—
Policy and Priorities Program			
Mar. 6, 1981	Program Administration	40,700	27,231
Mar. 6, 1981	Industry and Trade Analysis	36,000	26,521
Mar. 6, 1981	Industry Sector Policy	75,100	75,100
Apr. 14, 1981	Industry Sector Policy	8,000	7,347
Industry Development Program			
Mar. 6, 1981	Program Administration	30,000	12,729
Mar. 6, 1981	Small Business Development	287,600	257,330
Mar. 6, 1981	Industrial Development	351,000	351,000
Apr. 14, 1981	Industrial Development	230,000	228,065

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Industry and Tourism (cont'd)			
Mar. 6, 1981	Trade Development	1,105,000	984,815
Mar. 6, 1981	Operations	2,145,400	2,010,842
Mar. 6, 1981	Evaluation and Assessment	204,000	204,000
Apr. 14, 1981	Evaluation and Assessment	30,000	28,930
Tourism Development Program			
Mar. 6, 1981	Tourism Marketing Development	559,500	559,500
Apr. 14, 1981	Tourism Marketing Development	62,000	56,354
Mar. 6, 1981	Tourism Field Operations	162,000	155,720
Mar. 6, 1981	Resort Development	4,000	3,586
Ontario Place Corporation Program			
Mar. 6, 1981	Ontario Place Operations	540,000	540,000
Mar. 6, 1981	Ontario Place Development	194,000	194,000
Industrial Incentives and Development Program			
Apr. 14, 1981	Ontario Development Corporation	891,000	891,000
Apr. 21, 1981	Ontario Development Corporation	6,000	6,000
Apr. 28, 1981	Ontario Development Corporation	5,500	4,528
		<u>7,935,400</u>	<u>7,573,031</u>

Ministry of Labour

Ministry Administration Program			
Feb. 3, 1981	Main Office	166,500	166,500
Mar. 6, 1981	Main Office	442,000	221,498
Feb. 3, 1981	Financial Services	106,700	106,700
Mar. 6, 1981	Financial Services	30,000	6,316
Feb. 3, 1981	Supply and Office Services	237,000	237,000
Mar. 6, 1981	Supply and Office Services	60,000	19,210
Feb. 3, 1981	Personnel Services	100,700	66,557
Feb. 3, 1981	Information Services	32,000	32,000
Mar. 6, 1981	Information Services	85,000	73,715
Feb. 3, 1981	Analysis and Planning	189,600	134,006
Mar. 6, 1981	Analysis and Planning	15,000	—
Feb. 3, 1981	Audit Services	17,800	12,182
Feb. 3, 1981	Systems Development Services	83,000	43,349
Mar. 6, 1981	Systems Development Services	20,000	—
Industrial Relations Program			
Feb. 3, 1981	Program Administration	29,600	—
Mar. 6, 1981	Office of Arbitration	30,000	5,202
Women's Program			
Feb. 3, 1981	Women Crown Employee Office	21,300	115
Mar. 6, 1981	Women Crown Employee Office	8,000	—
Feb. 3, 1981	Women's Bureau	55,700	55,700
Mar. 6, 1981	Women's Bureau	50,000	44,246
Occupational Health and Safety Program			
Feb. 3, 1981	Program Administration	35,600	—
Feb. 3, 1981	Construction Health and Safety	391,000	391,000
Mar. 6, 1981	Construction Health and Safety	230,000	96,333
Mar. 6, 1981	Industrial Health and Safety	190,000	4,687
Feb. 3, 1981	Mining Health and Safety	189,600	93,092
Feb. 3, 1981	Occupational Health	509,600	97,602
Feb. 3, 1981	Special Studies and Services	136,300	—

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Labour (cont'd)			
	Employment Standards Program		
Feb. 3, 1981	Employment Standards	1,074,300	1,074,300
Mar. 6, 1981	Employment Standards	150,000	70,136
	Human Rights Commission Program		
Feb. 3, 1981	Human Rights Commission	318,400	—
	Labour Relations Board Program		
Jan. 20, 1981	Labour Relations Board	300,000	300,000
Feb. 3, 1981	Labour Relations Board	260,700	162,575
Mar. 6, 1981	Labour Relations Board	60,000	—
		<hr/> 5,625,400	<hr/> 3,514,021
Ministry of Natural Resources			
	Ministry Administration Program		
Feb. 20, 1981	Main Office	743,300	714,729
Mar. 6, 1981	Supply and Office Services	219,800	209,519
Feb. 13, 1981	Personnel Services	247,800	247,124
Feb. 20, 1981	Systems Development Services	35,100	19,426
Feb. 20, 1981	Legal Services	107,300	100,840
Feb. 13, 1981	Field Administration	1,969,400	1,969,400
Apr. 14, 1981	Field Administration	82,000	69,007
	Land Management Program		
Feb. 20, 1981	Water Control and Engineering	772,500	772,500
Apr. 14, 1981	Water Control and Engineering	105,000	73,842
Feb. 20, 1981	Forest Protection	1,693,800	1,646,758
Mar. 6, 1981	Air Service	474,300	474,300
Apr. 14, 1981	Air Service	63,000	55,294
June 30, 1980	Extra Fire Fighting	8,000,000	8,000,000
July 8, 1980	Extra Fire Fighting	10,000,000	10,000,000
Sept. 15, 1980	Extra Fire Fighting	3,000,000	2,191,512
Feb. 20, 1981	Land and Water Classification	339,800	339,800
Apr. 14, 1981	Land and Water Classification	107,000	16,298
Mar. 6, 1981	Land, Water and Mineral Title Administration	320,800	299,627
Apr. 14, 1981	Conservation Authorities	5,262,500	5,128,876
Mar. 6, 1981	Basic Mapping and Geographic Referencing	47,600	19,384
	Outdoor Recreation Program		
Feb. 3, 1981	Recreational Areas	2,255,000	2,255,000
Feb. 20, 1981	Recreational Areas	2,085,200	1,939,882
Mar. 6, 1981	Fish and Wildlife	2,861,800	2,861,800
Apr. 14, 1981	Fish and Wildlife	365,000	350,427
Mar. 6, 1981	St. Lawrence Parks Commission	572,200	511,135
	Resource Products Program		
Mar. 24, 1981	Mineral Management	1,205,000	901,320
Mar. 6, 1981	Forest Management	1,810,700	1,810,700
Apr. 14, 1981	Forest Management	481,000	116,466
	Resource Experience Program		
Mar. 6, 1981	Leslie M. Frost Natural Resources Centre	59,900	58,765
		<hr/> 45,286,800	<hr/> 43,153,731

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Transportation and Communications			
	Ministry Administration Program		
Apr. 14, 1981	Main Office	115,000	47,977
Apr. 14, 1981	Financial Services	825,100	470,610
Apr. 14, 1981	Legal Services	160,000	127,801
Apr. 14, 1981	Personnel Services	135,000	125,249
Apr. 14, 1981	Supply and Office Services	635,000	618,956
Apr. 14, 1981	Audit Services	250,000	77,277
	Safety and Regulation Program		
Apr. 14, 1981	Program Administration	145,000	91,995
Apr. 14, 1981	Examination, Inspection and Enforcement	1,915,000	695,662
	Provincial Roads Program		
Apr. 14, 1981	Program Administration	2,125,000	1,933,765
Apr. 14, 1981	Design	6,280,000	6,043,042
Mar. 6, 1981	Capital and Construction	9,125,000	9,125,000
Apr. 14, 1981	Capital and Construction	1,500,000	1,492,246
Mar. 6, 1981	Maintenance	11,503,000	11,503,000
Apr. 14, 1981	Maintenance	8,500,000	8,456,646
	Provincial Transit Program		
Mar. 6, 1981	Operations	1,500,000	1,500,000
Apr. 14, 1981	Operations	667,000	666,856
	Air Program		
Apr. 14, 1981	Program Administration	50,000	41,834
Apr. 14, 1981	Maintenance	170,000	169,807
	Municipal Roads Program		
Apr. 14, 1981	Program Administration	350,000	262,993
Apr. 14, 1981	Capital Construction and Maintenance	4,830,000	3,999,073
	Municipal Transit Program		
Apr. 14, 1981	Program Administration	80,000	23,188
	Communications Program		
Apr. 14, 1981	Program Administration	70,000	15,970
		50,930,100	47,488,947
Social Development Policy			
	Social Development Policy Program		
Feb. 20, 1981	Social Development Policy	572,000	395,859
Mar. 15, 1981	Youth Secretariat and Youth Experience ...	200,000	137,056
		772,000	532,915
Ministry of Colleges and Universities			
	University Support Program		
Mar. 6, 1981	Program Administration	11,500	6,393
	College and Adult Education Support Program		
Mar. 6, 1981	Program Administration	4,300	—
Mar. 6, 1981	Provincial Support for Colleges of Applied Arts and Technology	13,255,900	10,152,697
Mar. 15, 1981	Provincial Support for Colleges of Applied Arts and Technology	12,900	—

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Colleges and Universities (cont'd)			
Mar. 6, 1981	Manpower Training	745,400	449,785
Mar. 15, 1981	Manpower Training	13,900	—
Mar. 6, 1981	Apprenticeship	740,800	740,800
Mar. 15, 1981	Apprenticeship	101,400	96,251
Mar. 6, 1981	Schools for Nursing Assistants	11,200	—
Mar. 6, 1981	Advisory Councils	15,200	15,200
Apr. 21, 1981	Advisory Councils	23,500	22,485
Student Affairs Program			
Mar. 6, 1981	Student Support	6,070,400	5,054,097
		<u>21,006,400</u>	<u>16,537,708</u>

Ministry of Community and Social Services

Ministry Administration Program			
Apr. 14, 1981	Main Office	89,800	16,163
Apr. 14, 1981	Financial Services	311,400	37,113
Apr. 14, 1981	Supply and Office Services	228,600	223,883
Apr. 14, 1981	Personnel Services	136,800	125,284
Apr. 14, 1981	Training and Development	64,400	46,020
Apr. 14, 1981	Information Services	104,800	104,650
Apr. 14, 1981	Legal Services	36,000	34,990
Apr. 14, 1981	Audit Services	73,600	—
Mar. 6, 1981	Systems Development Services	847,000	846,377
Apr. 14, 1981	Social Assistance Review Board	62,500	28,155
Adult Services Program			
Mar. 15, 1981	Field Administration	286,600	286,600
Mar. 15, 1981	Income Maintenance	41,244,400	40,676,831
Mar. 15, 1981	Social Services	8,661,800	7,491,705
Apr. 14, 1981	Social Services	353,400	—
Mar. 15, 1981	Development Services for Adult	13,297,400	11,939,595
Children's Services Program			
Mar. 15, 1981	Program Administration	795,900	682,701
Mar. 15, 1981	Field Administration	1,445,300	1,445,300
Mar. 15, 1981	Child Welfare and Health Services	8,473,500	8,473,500
Apr. 14, 1981	Child Welfare and Health Services	1,274,500	1,127,615
Mar. 15, 1981	Detention and Correctional Services	1,294,000	622,083
Apr. 14, 1981	Detention and Correctional Services	40,000	—
Apr. 14, 1981	Development Services for Children	543,100	4,331
		<u>79,664,800</u>	<u>74,212,896</u>

Ministry of Culture and Recreation

Ministry Administration Program			
Mar. 6, 1981	Main Office	51,300	51,300
Apr. 14, 1981	Main Office	46,000	19,849
Feb. 13, 1981	Supply and Office Services	218,700	185,076
Feb. 13, 1981	Personnel Services	107,600	98,013
Mar. 6, 1981	Information Services	33,000	22,411
Feb. 13, 1981	Legal Services	21,300	19,644
Mar. 6, 1981	Audit Services	25,300	24,653
Mar. 6, 1981	Field Services	352,000	323,218

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
Ministry of Culture and Recreation (cont'd)			
	Heritage Conservation Program		
Mar. 6, 1981	Archives	99,400	79,072
Mar. 15, 1981	Archives	2,400	—
Mar. 6, 1981	Huronian Historical Sites	85,600	85,600
Mar. 15, 1981	Huronian Historical Sites	4,100	3,875
Mar. 6, 1981	Old Fort William	14,300	14,300
Mar. 15, 1981	Old Fort William	1,300	1,300
Apr. 14, 1981	Old Fort William	32,000	29,985
	Arts Support Program		
Mar. 6, 1981	Cultural Development and Institutions	260,500	219,866
Mar. 6, 1981	Ontario Science Centre	547,700	500,431
Mar. 15, 1981	Ontario Science Centre	29,400	—
	Citizenship and Multicultural Support Program		
Mar. 6, 1981	Special Services for Native People	142,700	132,656
Dec. 16, 1980	Translation Services	185,600	98,186
	Sports and Fitness Program		
Mar. 6, 1981	Recreation and Fitness	90,900	148
	Ministry Capital Support Program		
Jan. 6, 1981	Capital Support	13,447,000	13,447,000
Apr. 14, 1981	Capital Support	451,500	433,154
		16,249,600	15,789,737
Ministry of Education			
	Ministry Administration Program		
Mar. 6, 1981	Main Office	311,400	280,754
Mar. 15, 1981	Main Office	800	—
Mar. 6, 1981	Supply and Office Services	254,100	142,559
Mar. 6, 1981	Personnel Services	123,900	76,564
Mar. 6, 1981	Legal Services	7,900	4,545
	Education Program		
Mar. 6, 1981	Program Administration	273,900	245,579
Mar. 6, 1981	Schools for the Blind and Deaf	1,987,200	1,945,856
Mar. 15, 1981	Schools for the Blind and Deaf	4,000	—
Mar. 6, 1981	Educational Programs in the Development Centres Schools	937,400	801,987
Mar. 6, 1981	Educational Programs in the Training Schools	275,100	207,339
Mar. 6, 1981	Correspondence Education	398,100	398,100
Mar. 15, 1981	Correspondence Education	1,100	39
Mar. 6, 1981	Regional Offices	811,300	639,878
Mar. 15, 1981	Regional Offices	3,100	—
	Services to Education Program		
Mar. 6, 1981	Education Relations Commission	29,300	29,270
Mar. 6, 1981	Languages of Instruction Commission	4,900	4,247
		5,423,500	4,776,717

DATE OF ORDER	MINISTRY PROGRAM AND ACTIVITY	AUTHORIZED	EXPENDED
		\$	\$
	Ministry of Health		
	Ministry Administration Program		
Mar. 15, 1981	Financial Services	398,000	387,705
Mar. 15, 1981	Supply and Office Services	1,042,000	1,042,000
Apr. 14, 1981	Supply and Office Services	11,000	1,717
Mar. 15, 1981	Personnel Services	100,000	95,515
Jan. 27, 1981	Information Services	1,610,600	1,605,849
Mar. 15, 1981	Analysis and Planning	48,000	14,908
Mar. 15, 1981	Audit Services	19,000	9,340
	Institutional Health Services Program		
Mar. 15, 1981	Program Administration	6,000	4,787
Mar. 15, 1981	Psychiatric Services	15,144,000	15,042,000
Mar. 15, 1981	Ambulance Services	2,790,000	2,698,605
Mar. 15, 1981	Laboratory Services	1,295,000	1,285,109
Apr. 14, 1981	Laboratory Services	137,000	—
Mar. 15, 1981	Institutional Care Services	60,740,000	57,818,607
	Community Health Services Program		
Mar. 15, 1981	Program Administration	55,000	22,404
	Health Insurance Program		
Mar. 15, 1981	Health Insurance	65,882,000	62,101,544
		149,277,600	142,130,090
	Total Management Board Orders	513,838,600	467,877,527

STATUTORY APPROPRIATIONS

AMOUNTS EXPENDED THEREUNDER
DURING THE YEAR ENDED MARCH 31, 1981

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Office of the Premier	Premier's Salary	Expenditure	29,900
Management Board of Cabinet	Minister's Salary	Expenditure	21,000
Government Services	Minister's Salary	Expenditure	21,000
	Ministers without Portfolio Salaries	Expenditure	18,000
	Contract security deposits	Charge	100,780
	Effingham Park Expropriation Trust Account	Charge	20,140
	Government Stationery Account	Expenditure	116,183
			276,103
Intergovernmental Affairs	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
	<i>Payments in lieu of taxes</i>		
	The Whirlpool Rapids Bridge Act	Expenditure	36,000
	The Lewiston-Queenston Bridge Act	Expenditure	20,000
	Loans to municipalities under The Shoreline Property Assistance Act	Disbursement	1,639,457
			1,722,957
Northern Affairs	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
			27,500
Revenue	Minister's Salary	Expenditure	21,000
	Contract security deposits — Retail Sales Tax	Charge	56,795
	Province of Ontario Savings Office Program	Expenditure	4,794,934
	Payments under The Ontario Pensioners Property Tax Assistance Act	Expenditure	273,001,265
			277,873,994

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
Treasury and Economics	Minister's Salary	Expenditure	\$ 21,000
	<i>Public Debt</i>		
	Interest on Ontario Securities		
	Public Issues		
	For general purposes	Expenditure	93,703,749
	Non Public Issues		
	Canada Pension Plan Investment Fund	Expenditure	745,529,975
	Teachers' Superannuation Fund	Expenditure	312,133,690
	Ontario Municipal Employees' Retirement Fund	Expenditure	117,250,593
	Other	Expenditure	32,176,121
	Interest on Public Service Superannuation Fund	Expenditure	164,331,697
	Interest on Superannuation Adjustment Fund	Expenditure	39,606,011
	Interest on Province of Ontario Savings Office Deposits	Expenditure	69,468,267
	Other interest, exchange, discount and commission	Expenditure	20,691,047
	<i>Development Loans</i>		
	The Ontario Municipal Improvement Corporation	Disbursement	432,000
	<i>Pension Funds, Deposit, Trust, and Reserve Accounts</i>		
	Payments from Public Service Superannuation Fund	Charge	88,814,471
	Payments from Superannuation Adjustment Fund:		
	Public Service Superannuation Plan	Charge	8,032,776
	Teachers' Superannuation Plan	Charge	8,649,873
	Retirement Pension Plan of Ryerson Polytechnical Institute	Charge	39,201
	Caucus Employees Retirement Plan	Charge	10,405
	Payments from Legislative Assembly Retirement Allowances Account	Charge	702,781
	Other	Charge	892,077
	Debt Transactions	Retirements of Loans	168,696,712
			1,871,182,446
Office of the Assembly	The Election Act	Expenditure	12,036,410
	Contribution to Legislative Assembly Retirement Allowances Account	Expenditure	668,342
			12,704,752
Office of the Provincial Auditor	Provincial Auditor's Salary	Expenditure	64,853

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Justice Policy	Payments from the Provincial Lottery Trust Fund	Charge	540,000
Attorney General	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
	Proceedings against The Crown Act	Expenditure	34,935
	Allowances to Supreme Court Judges	Expenditure	180,000
	Allowances to Judges	Expenditure	418,919
			661,354
Consumer and Commercial Relations	Minister's Salary	Expenditure	21,000
	Payments from The Motor Vehicle Accident Claims Fund	Charge	18,002,272
	Security Bond Forfeitures:		
	The Consumer Protection Act	Charge	35,000
	The Motor Vehicle Dealers Act	Charge	50,000
	The Real Estate and Business Brokers Act	Charge	87,500
	The Travel Industry Act	Charge	111,336
	The Collection Agencies Act	Charge	5,000
	Fees under The Vital Statistics Act	Expenditure	345
	Unclaimed monies	Charge	1,080
	Contract Security Deposits		
	Athletics Commissioner	Charge	10,000
	Crown Contributions re Judges' Plans	Expenditure	5,854
			18,329,387
Correctional Services	Minister's Salary	Expenditure	21,000
	Unclaimed monies	Charge	1,613
	Bequests and scholarships	Charge	119
			22,732
Solicitor General	Hearings under The Police Act	Expenditure	1,256
	Payments under The Ministry of Treasury and Economics Act	Expenditure	84,928
	Ontario Police College Library	Charge	12,295
			98,479
Resources Development Policy	Minister's Salary	Expenditure	21,000
Agriculture and Food	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
	Payment of Guarantees	Expenditure	177,396
	Subsidy payments to The Ontario Crop Insurance Fund	Expenditure	13,397,648

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Agriculture and Food (Cont'd)	Tile Drainage Debentures	Disbursement	26,170,800
	Ontario Agricultural Museum Trust Fund	Charge	11,206
	Payments from the Provincial Lottery Trust Fund	Charge	1,255,998
	The Richard Blake Palmer Trust Fund	Charge	23,500
			41,064,048
Energy	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
			27,500
Environment	Minister's Salary	Expenditure	21,000
	Payments from the Provincial Lottery Trust Fund	Charge	1,799,826
	Reserve Fund for Renewals, Replacements and Contingencies	Charge	1,117,705
	Sinking Fund for Recovery of the Cost of Capital Assets	Charge	265,333
			3,203,864
Housing	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
			27,500
Industry and Tourism	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,238
	Ontario Development Corporation Loan Program	Disbursement	15,129,620
	Northern Ontario Development Corporation Loan Program	Disbursement	8,023,623
	Eastern Ontario Development Corporation Loan Program	Disbursement	9,765,916
			32,946,397
Labour	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	5,342
	Payments from the Provincial Lottery Trust Fund	Charge	1,628,884
	Employment Standards		
	Unclaimed vacation-with-pay	Charge	43,950
	Unclaimed wages	Charge	59,374
	Mine Rescue Training	Expenditure	604,335
			2,362,885

MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
			\$
Natural Resources	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
	Contract security deposits	Charge	363,658
	Payments from the Provincial Lottery Trust Fund	Charge	1,454,368
			1,845,526
Transportation and Communications	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
	City of Niagara Falls — Compensation for Loss of Taxes	Expenditure	12,000
	Construction trust account	Charge	1,095,655
	Contract security deposits	Charge	2,900
			1,138,055
Social Development Policy	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
			27,500
Colleges and Universities	The Private Vocational Schools Act	Charge	14,656
	Queen Elizabeth II Ontario Scholarship Fund	Charge	56,738
			71,394
Community and Social Services	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	4,114
	Bequests and scholarships	Charge	16,389
	Payments from the Provincial Lottery Trust Fund	Charge	995,678
			1,037,181
Culture and Recreation	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
	Ontario Olympic Lottery Sports Fund	Charge	40,000
			67,500
Education	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
	Student Aid Loans, Write-off	Expenditure	5,874
	Bequests and scholarships	Charge	47,812
	Ontario Education Association — Elementary Teachers' Loan Fund	Charge	356
	Teachers' Superannuation Fund	Expenditure	137,126,689

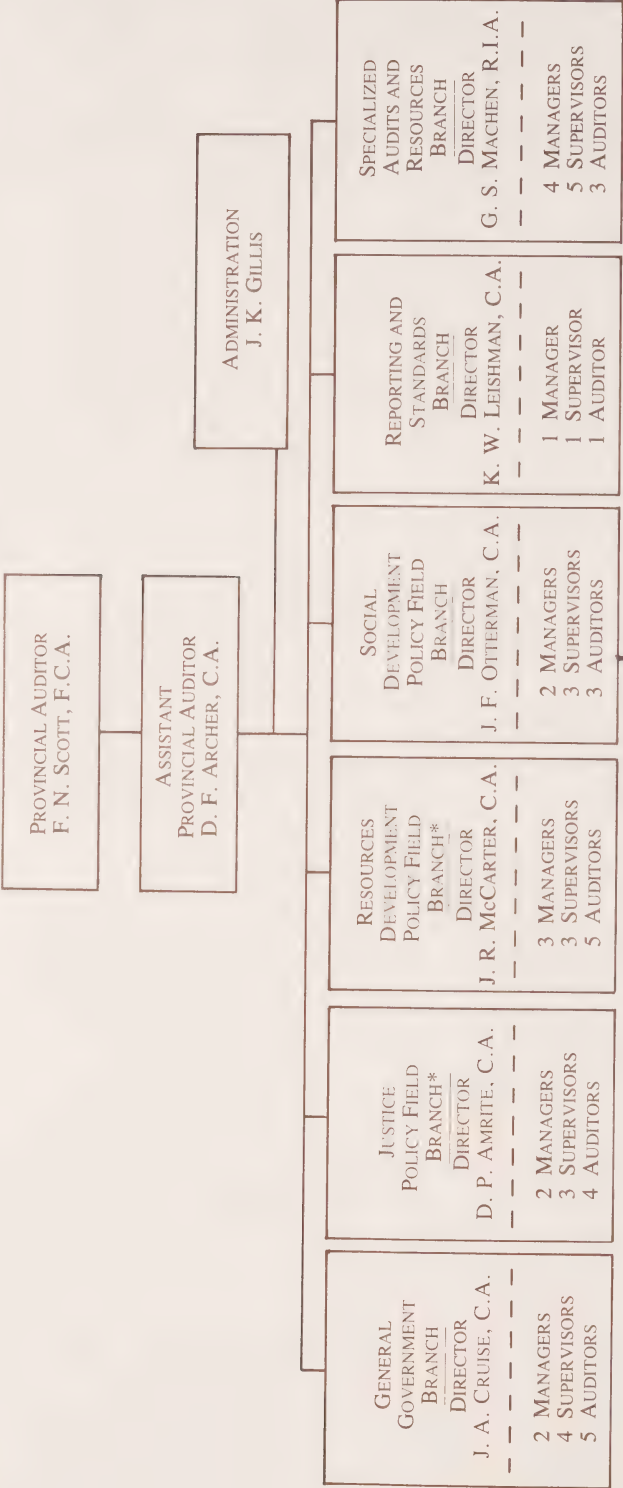
MINISTRY	ACTIVITY	PAYMENT CLASSIFICATION	EXPENDED
Education (Cont'd)	Superannuation Adjustment Fund	Expenditure	\$ 27,510,101
	Superannuation Adjustment Benefits	Expenditure	40,816,260
			<u>205,534,592</u>
Health	Minister's Salary	Expenditure	21,000
	Parliamentary Assistant's Salary	Expenditure	6,500
	Government Pharmacy	Expenditure	799,369
	Payments from the Provincial Lottery		
	Trust Fund	Charge	2,925,000
	Reserve for outstanding cheques	Charge	45,924
	Payments from Lotteries	Charge	33,993,802
			<u>37,791,595</u>
	Total Statutory Payments		<u>2,510,721,994*</u>

Summary of Statutory Payments

	\$
Budgetary Expenditure	2,107,429,640
Disbursements	61,161,416
Charges	173,434,226
Retirements of Loans	168,696,712
	<u>2,510,721,994*</u>

* Does not include Ontario Hydro transactions. See Report section 4.8.

ORGANIZATION CHART
OFFICE OF THE PROVINCIAL AUDITOR



* Ministry of Municipal Affairs and Housing audited by Justice Policy Field Branch
NOTE: Students are not assigned to a specific branch, but are allocated as required.

EXHIBIT 5

OFFICE OF THE PROVINCIAL AUDITOR
MINISTRY AUDITS AND SPECIAL REVIEWS

Year Ended March 31, 1981

(See Note)

MINISTRY AUDITS

Agriculture and Food
Attorney General
Colleges and Universities
Community and Social Services
Consumer and Commercial Relations
Correctional Services
Education
Energy
Environment
Government Services
Health
Industry and Tourism
Labour
Management Board of Cabinet
Municipal Affairs and Housing
Natural Resources
Northern Affairs
Revenue
Solicitor General
Transportation and Communications
Treasury and Economics

SPECIAL REVIEWS

Management Controls Reviews:

Ontario Economic Council

Status of the Strategic Policy Development and Planning Process, Ministry of Transportation and Communications

Experience Program, Provincial Secretariat for Social Development

Women's Program, Ministry of Labour

Staff Training Services and Staff Development Centre Activities of the Government Personnel Services Program, Civil Service Commission

Reviews for Standing Public Accounts Committee:

Current Status of the Saltfleet and North Pickering Land Assembly Projects

Summary of Advertising Costs by Ministries, year ended March 31, 1980

St. Marys Medical Clinic and the Health Services Organization (HSO) Program of the Ministry of Health

Review of the Annual Financial Statements of the Urban Transportation Development Corporation Ltd.

Other:

Reviews of Internal Audit Operations—Ministries (3) and Agencies (1)

Contingency Plans at Government Computer Centres, Ministry of Government Services

Review of Administrative Matters, Liquor Licence Board

NOTE: In general, this listing includes audits completed between the date (September 30, 1980) of our 1979-80 Report and the date (September 30, 1981) of this Report. In all cases, at least a portion of the period covered by the audit fell within the year ended March 31, 1981.

EXHIBIT 6

OFFICE OF THE PROVINCIAL AUDITOR
AGENCY OF THE CROWN AND CROWN CONTROLLED
CORPORATION AUDITS

Year Ended March 31, 1981

(See Notes)

AGENCIES OF THE CROWN

- (i) Whose accounts the Provincial Auditor is appointed to audit by its shareholders or by its board of management, board or directors or other governing body.

Ontario Educational Services Corporation (Note 2)

Ontario Industrial Training Institute

* Ontario Land Corporation

* Ontario Mortgage Corporation

Ontario Waste Management Corp. (Note 2)

The Owen Sound Transportation Company, Limited (December 31, 1980)

Soldiers' Aid Commission

Star Transfer Limited (December 31, 1980)

- (ii) Whose accounts are audited by the Provincial Auditor pursuant to appointment under any Act or by the Lieutenant Governor in Council.

* The Accountant of the Supreme Court of Ontario

Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation

* Algonquin Forestry Authority

The Centennial Centre of Science and Technology

Commission on Election Contributions and Expenses

* The Crop Insurance Commission of Ontario

* Eastern Ontario Development Corporation

* Farm Income Stabilization Commission of Ontario

The Fund for Milk and Cream Producers, The Milk Commission of Ontario

The John Graves Simcoe Memorial Foundation

The Law Society of Upper Canada, Legal Aid Fund

* Liquor Control Board of Ontario

The McMichael Canadian Collection

* The Niagara Parks Commission (October 31, 1980)

* Northern Ontario Development Corporation

North Pickering Development Corporation

Office of the Assembly

Office of the Official Guardian

Office of the Ombudsman

-
- Ontario Agricultural Museum
 - The Ontario Cancer Treatment and Research Foundation
 - Ontario Deposit Insurance Corporation (December 31, 1980)
 - * Ontario Development Corporation
 - * The Ontario Education Capital Aid Corporation
 - The Ontario Educational Communications Authority
 - * Ontario Food Terminal Board
 - The Ontario Heritage Foundation
 - * Ontario Housing Corporation (December 31, 1980)
 - Ontario International Corporation (Note 2)
 - * The Ontario Junior Farmer Establishment Loan Corporation
 - * Ontario Lottery Corporation
 - * The Ontario Municipal Improvement Corporation
 - * Ontario Northland Transportation Commission (December 31, 1980)
 - * Ontario Place Corporation
 - Ontario Racing Commission
 - * Ontario Stock Yards Board (June 30, 1980)
 - The Ontario Telephone Development Corporation
 - * The Ontario Universities Capital Aid Corporation
 - Pension Commission of Ontario
 - Province of Ontario Council for the Arts
 - * Public Service Superannuation Fund
 - * The Public Trustee of the Province of Ontario
 - Residential Tenancy Commission
 - The St. Clair Parkway Commission (December 31, 1980)
 - The St. Lawrence Parks Commission
 - * Superannuation Adjustment Fund
- (iii) Whose accounts are audited by an auditor, other than the Provincial Auditor, appointed by the Lieutenant Governor in Council.
- Board of the Community Psychiatric Hospital, Guelph
 - Clarke Institute of Psychiatry
 - The Ontario Cancer Institute
 - Ontario Mental Health Foundation
 - Teachers' Superannuation Fund (December 31, 1980)
 - * Workmen's Compensation Board (December 31, 1980)
- (iv) The audit of whose accounts the Provincial Auditor is required to direct or review, or in respect of which the auditor's report and working papers used in the preparation of the auditor's statement are required to be made available to the Provincial Auditor under the agency's governing Act.
- * Toronto Area Transit Operating Authority.

CROWN CONTROLLED CORPORATIONS, whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

Beechgrove Regional Children's Centre Board of Governors
The Board of Governors of The Ontario Institute for Studies in
Education (April 30, 1981)

Metropolitan Toronto Convention Centre Corporation (Note 2)

Ontario Cream Producers' Marketing Board (September 30, 1980)

* Ontario Energy Corporation (December 31, 1980)

Ontario Historical Studies Series

* Ontario Hydro (December 31, 1980)

The Ontario Milk Marketing Board (October 31, 1980)

Ontario Municipal Employees Retirement Board (December 31,
1980)

Ontario Research Foundation (December 31, 1980)

Ontario Share and Deposit Insurance Corporation (December 31,
1980)

The Ontario Transportation Development Corporation (December
31, 1980)

Ontario Van Pool Organization Limited (December 31, 1980)
(Note 2)

The Royal Ontario Museum (June 30, 1980)

* Urban Transportation Development Corporation Ltd. (December
31, 1980)

* Audited financial statements reproduced in 1980-81 Public Accounts, the majority appearing in Volume 2 thereof.

NOTE 1: In all cases, the audit covered the fiscal period of the Agency or Corporation. In most cases, the fiscal period ended on March 31, 1981. Where the fiscal period ended on a date other than March 31, 1981, such date has been indicated in parenthesis.

NOTE 2: Newly established this fiscal year.

EXHIBIT 7

**OFFICE OF THE PROVINCIAL AUDITOR
PROVINCE OF ONTARIO**

**STATEMENT OF EXPENDITURE
FOR THE YEAR ENDED MARCH 31, 1981**

	1981		1980	
	Estimates	Actual	Estimates	Actual
Salaries and wages.....	\$2,138,500	\$1,977,740	\$1,946,000	\$1,765,443
Employee benefits	334,000	311,635	314,000	246,023
Transportation and communication	68,500	77,180	50,000	57,578
Services	120,000	186,792	40,000	93,959
Supplies and equipment	15,000	13,372	10,000	20,747
Canadian Comprehensive Auditing Foundation	24,000	24,000	—	—
	<u>2,700,000</u>	<u>2,590,719</u>	<u>2,360,000</u>	<u>2,183,750</u>
Provincial Auditor's salary (The Audit Act)	59,000	64,853	55,000	58,798
	<u>\$2,759,000</u>	<u>\$2,655,572</u>	<u>\$2,415,000</u>	<u>\$2,242,548</u>

NOTES**1. Accounting Policy**

The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the "cash flow" principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended.

2. Estimates

The estimates shown above are those noted and approved, including supplementary estimates where applicable.

EXHIBIT 7

AUDITORS' REPORT

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1981. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1981 in accordance with the basis of accounting described in Note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Ontario
July 21, 1981

CLARKE, HENNING & CO.
CHARTERED ACCOUNTANTS

EXHIBIT 8

STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS
CONTAINED IN THE PROVINCIAL AUDITOR'S PREVIOUS ANNUAL REPORTS

(See Note)

REPORT	SECTION	CAPTION	STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
1979-80	* 2.3	Ministry of Agriculture and Food	Substantially implemented.
1979-80	* 2.4	Program delivery improvements recommended, Farm Tax Reduction Program. Multiplicity of financial assistance programs.	
1978-79	* 50	Ministry of Community and Social Services	Ministry has advised that, where feasible, direct administrative costs of programs are being identified in MBR reports.
1979-80	* 2.5	Criteria and other matters related to the use of consul- tant queried. Comments on reorganization.	
1979-80	* 2.6	Ministry of Culture and Recreation	Substantially implemented.
1979-80	* 2.6	Administrative improvements recommended re Win- tario grants.	
1978-79	* 53	Ministry of Education	Substantially implemented.
1978-79	* 53	Review of grant payments for transportation to Lan- ark County Board of Education.	
1979-80	2.7	Ministry of Energy	Implemented.
1979-80	2.7	Comments on management and delivery of Energy Conservation Program.	
1978-79	* 54	Ministry of the Environment	Status to be verified at time of next audit in this area.
1978-79	* 59	Detailed review of Waste Recovery Program. Revenue from licences.	
1979-80	* 2.8	Recommendations for improvements in economy and reporting of effectiveness.	Implemented.
1979-80	* 2.8	Recommendations for improvements in economy and reporting of effectiveness.	
1979-80	* 2.8	Recommendations for improvements in economy and reporting of effectiveness.	Substantially implemented.
1979-80	* 2.8	Recommendations for improvements in economy and reporting of effectiveness.	
1979-80	* 2.8	Recommendations for improvements in economy and reporting of effectiveness.	In process of implementation—any significant delay in this area will be com- mented on in our future annual reports to the Legislature.
1979-80	* 2.8	Recommendations for improvements in economy and reporting of effectiveness.	

**STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS
CONTAINED IN THE PROVINCIAL AUDITOR'S PREVIOUS ANNUAL REPORTS—CONTINUED**

REPORT	SECTION	CAPTION	<i>(See Note)</i> STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT	
		Ministry of Government Services		
1979-80	* 2.9	Matters related to performance measurement and efficiency of the Central Collection Services Activity.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.	
		Ministry of Health		
1978-79	*64	Substantial funding of medical clinic questioned.	Substantially implemented.	
		Ministry of Intergovernmental Affairs		
1978-79	*69	Rationale for grant payments queried.	Implemented.	
		Ministry of Natural Resources		
1979-80	* 2.10	Weaknesses re technical consulting contracts.	Substantially implemented.	
1979-80	* 2.11	Inadequate controls over equipment inventories.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.	
1979-80	* 2.12	Motor vehicle management and accounting system.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.	
		Ministry of Northern Affairs		
1979-80	* 2.13	Observations re community priorities projects.	Substantially implemented.	
1979-80	* 2.14	Inadequate follow-up procedures re bursaries.	Substantially implemented.	
		Ministry of Revenue		
1979-80	* 2.15	Improvements recommended re administration of contracts.	Implemented.	
		Ministry of Transportation and Communications		
1979-80	* 2.17	Accounts receivable system deficiencies.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.	
		Crown Agencies		
1979-80	* 3.5	Apparent conflict of interest, The Centennial Centre of Science and Technology.	Implemented.	

STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS CONTAINED IN THE PROVINCIAL AUDITOR'S PREVIOUS ANNUAL REPORTS—CONTINUED

(See Note)

REPORT	SECTION	CAPTION	STATUS OF CORRECTIVE ACTION AND RECOMMENDATIONS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
1978-79	*88	Review of Crop Insurance Program, The Crop Insurance Commission of Ontario.	Substantially implemented.
1979-80	* 3.6	Improvement in physical security of computer facilities recommended, Liquor Control Board of Ontario.	Implemented.
1979-80	* 3.7	Unauthorized and other questionable expenditures, Liquor Licence Board.	Substantially implemented.
1979-80	* 3.8	Further safeguards warranted re works of art on loan, The McMichael Canadian Collection.	Implemented.
1978-79	*92	Inaction noted re recommended closing of branch facility, Ontario Agricultural Museum.	In process of implementation—any significant inaction in this area will be commented on in our future annual reports to the Legislature.
1979-80	* 3.9	Unlocated equipment, The Ontario Educational Communications Authority.	Partially implemented—any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1979-80	* 3.10	Lack of employee familiarity with new computer system, Ontario Housing Corporation.	Substantially implemented.
1979-80	* 3.11	Acquisition of properties on default of mortgages, Ontario Mortgage Corporation.	Implemented.
		General	
1979-80	* 1.6	Managing by results.	Implementation in process—see section 1.9 of this Report.
1979-80	*ch.4	Comments on internal audit operations.	Implementation in process—see section 1.9 of this Report.

NOTE: This Exhibit provides the status of all suggested corrective action and recommendations which were:

- considered unresolved per Exhibit 7 of the 1979-80 Auditor's Report,
- contained in the body of the 1979-80 Auditor's Report.

* Considered resolved by this Office as at September 30, 1981, the date of this Report.

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
July 10, 1975	4.	<p>(See Note)</p> <p>The Committee also recommends again most strongly that adequate guidelines be drawn up with respect to the use and security of information used and stored by the government computer service.</p>	<p>Section 55-2-5 of the Manual of Administration presently includes general policies regarding the security of data in computer systems.</p> <p>With respect to guidelines concerning the use of information at the government computer centres, the Secretary of Management Board of Cabinet advised us as follows on August 5, 1981:</p> <p>“... both the Commission on Freedom of Information and Individual Privacy and the Commission of Inquiry into the Confidentiality of Health Records have completed their work. As a consequence staff of the Management Board Secretariat have been working with the Minister Without Portfolio, first the Honourable A. Pope and now the Honourable N. Sterling, to be in a position to coordinate implementation of administrative policy changes consistent with the government response and possible implementation of the recommendations of these Royal Commissions.</p> <p>“The Honourable N. Sterling is currently responsible for coordinating the government's response to the recommendations of both Commissions. It is my understanding that a white paper and proposed legislation will be tabled this Fall. At the time when such legislation may be enacted, we expect to provide a number of administrative guidelines and policies that will deal with the access and use of government information, including that processed or held by the government or other private sector computer services.”</p>
December 14, 1976	*10.	<p>The Committee recommends that detailed regulations be developed setting out the criteria for the payment of grants to Universities and Colleges.</p>	<p>The Deputy Minister of Colleges and Universities, on September 22, 1981, advised us as follows:</p> <p>“For both colleges and universities, comprehensive rules and criteria for grant calculation have been developed which are published at least annually and are generally accepted as equitable.”</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
December 9, 1980	—	Accountability and Responsibility:	
	*	(a) The Committee recommends that the Deputy Minister as Chief Administrative Officer account for his performance of specific delegated or assigned duties before the legislative committee responsible for the scrutiny of government expenditures, the Public Accounts Committee.	<p>ble by the institutions affected. In my opinion, these fully satisfy the need identified in 1976, and their embodiment in a formal set of regulations would be an unnecessary extra step.</p> <p>“A regulation-based system would undoubtedly be more costly to operate than the present system. Developing it would also involve substantial costs. After the successive constraints imposed since 1976 the resources that would have to be diverted from primary Ministry functions can no longer be afforded. Under such a system, the Minister's ability to respond quickly to changing provincial priorities or institutional needs would be reduced. Policy decisions would tend to be more influenced than at present by purely administrative considerations. In all of these respects, the introduction of formal regulations would be counterproductive.”</p> <p>On August 11, 1981 the Chairman, Management Board of Cabinet wrote the Chairman of the Standing Public Accounts Committee:</p> <p>(a) “I agree with the main thrust of the first recommendation provided it is the Committee's intention that the principle of ministerial accountability applies. I raise the subject of ministerial accountability since the Committee is in fact endorsing a recommendation of the ‘Lambert Commission’ and Lambert can be interpreted to be questioning the principle of ministerial responsibility.</p> <p>“Within this principle, however, I agree with the Committee's current practice of requesting deputy ministers to appear and respond to inquiries respecting administration. Deputy ministers and all other public servants wish to fulfill their responsibility to the Legislature.</p> <p>“I believe that any request for a ministry to appear before</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
			<p><i>the Committee should go to the deputy minister. Deputy ministers may choose to be accompanied by members of their staff who may participate in the committee hearings. However, it is the deputy minister who has responsibility for the operation of the ministry (subject, of course, to the direction of his minister), and who should, therefore, be the focal point for dealings with the Committee."</i></p>
	*	(b) The Committee recommends that public officials remain permanently accountable for their decisions while in a particular office.	<p>(b) "In respect to the Committee's second recommendation, I believe the Committee should be able to request the appearance of any officials whom they feel will help their inquiry, including officials who may have previously served in the area which is under the Committee's immediate review. I would emphasize again that all public servants wish to fulfill their responsibilities to the Legislature.</p> <p>"However, I believe that permanent accountability should not become a formal requirement of public service positions. In my view, it is simply beyond the capability of any person to recall and recount explicitly events which may have transpired many years ago."</p>
December 9, 1980	—	Performance Appraisal and Discipline:	<p>The Chairman of the Civil Service Commission, on January 22, 1981, advised the Chairman of the Standing Public Accounts Committee as follows:</p>
	*	(a) The Committee recommends that regular, accurate performance appraisal be stressed throughout Government at all levels.	<p>(a) "The Civil Service Commission concurs that performance appraisal is fundamentally important to the productivity of civil servants. A policy was issued in January 1980, which pointed out the need for appraisal, the requirement that it shall occur at least once a year, and that it shall be based on a clear understanding between manager and employee, regarding specific performance expectations for the latter period. The Commission has provided performance ap-</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

RECOMMENDATION #	DATE OF REPORT	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
		(b) The Committee recommends that rewards be tied to exceptional performance rather than to merely adequate performance of duties.	<i>praisal guidelines which suggest how frequently reviews should take place. The Chairman of the Commission has recently written to all deputy ministers to follow up on the implementation of the policy."</i>
		(b) The Committee recommends that the Government now actively seek to minimize or end its losses on all three (South Cayuga, Townsend and Edwardsburgh) of these land assemblies including examination of the possibility of sale.	<i>"... Under the existing merit increase guidelines, the amount of the increase is, of course, influenced by the level of performance, but since such increases are also meant to recognize added experience, to restrict them only to exceptional performers would not allow for the movement of individuals through the pay range to the job rate. The Commission therefore feels that both assessed performance and experience should be recognized through the device of 'merit' increases. At the same time, it would like to point out that the prospects are rather remote for introducing into the bargaining unit this type of variable increase instead of the existing fixed step increase."</i>
		Land Assembly: The Committee recommends that the Government now actively seek to minimize or end its losses on all three (South Cayuga, Townsend and Edwardsburgh) of these land assemblies including examination of the possibility of sale.	In a lengthy letter to the Chairman of the Committee dated January 23, 1981, the Deputy Minister of Housing referred to Townsend and South Cayuga as follows: "Townsend is being developed in response to the massive industrial growth taking place at Nanticoke on Lake Erie, which includes a new steel making operation by The Steel Company of Canada Ltd., Texaco's largest Canadian oil refinery and Ontario Hydro's 4-million kilowatt thermal generating station ... "... In South Cayuga, we have agreed to sell those lands required by the Ministry of the Environment for a liquid waste treatment storage and research facility. The remaining surrounding lands will act as a buffer zone while remaining in agricultural use."

*—

December 9, 1980

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
			Regarding Edwarsburgh, the Deputy Minister of Natural Resources advised the Chairman of the Standing Public Accounts Committee as follows on February 2, 1981:
			"... the land in the Edwarsburgh Land Assembly is providing an excellent opportunity for the Ministry to develop and test hybrid poplar technology. In addition sanitation cuts will provide substantial amounts of fuelwood as we convert the balance of the timber management area to the more desirable species required to support local industries.
			"It is our present intention to proceed with our plans to convert all of the property not dedicated to agriculture to hybrid poplar or regular timber management by 1987/88."
December 9, 1980	—	Ministry of Health, St. Marys Clinic:	Re (a) and (b), the Deputy Minister of Health wrote to the Chairman of the Standing Public Accounts Committee as follows on January 23, 1981:
	*	(a) The Committee recommends that the Ministry consider the adoption of the recommendations of the Spitzer Report that clinics paid on a capitation basis be compared with practices providing care on a fee-for-service basis, and that the financial indicators recommended be developed and used.	(a) "The Ministry is developing evaluation protocols which will enable the Ministry to assess cost effectiveness. The Spitzer financial indicators or modifications thereto will be used at such time as it is feasible, or recommended by Spitzer, both in terms of size and acceptability for their application."
	*	(b) The Committee recommends that, if capitation is to remain as the basis of remuneration, the Ministry seek means for guaranteeing that ros- ters upon which capitation payments are based are correct as a first step in ensuring accountability.	(b) "The H.S.O. Program requires those individuals who intend to receive services from the H.S.O. to sign enrolment forms, and has developed with Ministry auditors a mechanism for audit. The current review by the staff of the Provincial Auditor, should assist the Ministry in identifying shortcomings in the information system. On the basis of this information, the Ministry will seek to implement procedures to improve the system in order to ensure accountability."

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
December 9, 1980	*	<p>(c) The Committee recommends that the Ministry undertake to recover payments made in error for individuals improperly on rosters, retroactive to the time when the actual ineligibility began.</p>	<p>With regard to (c) the Ministry's position, as stated at the June 4, 1981 meeting of the Standing Public Accounts Committee, was as follows:</p> <p><i>"The solution to the problem of inappropriate payment is rigorous roster monitoring. Retroactive recovery is seen to be unfair in principle due to the concept of the insurance mode under which payment is made. Since the clinic will be held responsible for provision of health care services required by a patient as long as he or she is on the roster payment seems warranted. As soon as it becomes evident that the patient does not desire nor is seeking services from the clinic both capitation payment and obligation should cease. It is considered that the increased rigour in monitoring the roster will minimize this problem."</i></p> <p>On July 31, 1981 the Deputy Solicitor General wrote us as follows:</p> <p><i>"Senior staff of this Ministry have held a number of meetings with counterparts in the Ministry of Municipal Affairs & Housing and the Ministry of Treasury & Economics and as a result a Cabinet Submission has been prepared. This Submission entitled 'The Delivery of Policing Services in Ontario' includes proposals for municipal policing under contract by the O.P.P. and also outlines a program of work with the objective of eliminating free and subsidized policing by the O.P.P. It is also intended to review and resolve any other inconsistencies which may be present so that the costs of policing are more equitably distributed across the Province."</i></p>
December 9, 1980	—	<p>Ministry of the Solicitor General:</p> <p>On the question of policing, the Committee recommends that the Ministries involved move without further delay to arrive at a rationalized and equitable means of financing policing services on a consistent basis.</p>	<p>On August 17, 1981 the Deputy Minister, Office of the Premier and Secretary of the Cabinet advised us as follows:</p> <p><i>"... at this point in time, the Government has made no official announcement indicating specific steps it may be taking as a result of the Report of the Royal Commission."</i></p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
December 9, 1980	*—	Ministry of the Attorney General: (re Legal Aid Plan) The Committee recommends that formal criteria for eligibility for assistance from clinics be established by the Law Society, that the scope of audits of clinics be broadened, that purchasing procedures and records needed to safeguard fixed assets be developed, and that the frequency of visits by Fund administrators to clinics for evaluative purposes be increased.	<i>"Consequently, the Government's position, until such time as such steps are officially announced, will be to follow the pattern which has been established over the past few years—that is, to respond to specific questions about government commissioned polls in accordance with the Standing Orders of the House, and to leave the actual release of polling data to the Ministries which are involved."</i>
December 9, 1980	*—	Ministry of Health, Ontario Drug Plan: The Committee recommends that the Ministry give consideration to negotiating a reduced dispensing fee for Over the Counter drugs with the Ontario Pharmacists Association.	On August 27, 1981 the Provincial Director of The Ontario Legal Aid Plan wrote us a letter in which he set out in detail the various measures which have been adopted in relation to each of the Committee's recommendations. The Deputy Minister of Health advised the Chairman of the Standing Public Accounts Committee as follows on January 23, 1981: <i>"The Committee's impression that the Ministry pays a dispensing fee on all 'over-the-counter' drugs is not quite accurate. For all drugs identified as 'OTC' in the Drug Benefit Formulary, the Ministry reimburses the provider for the lesser of the pharmacy's usual and customary price for that quantity of drug when prescribed or the price listed in the Formulary. The listed price does not include a dispensing fee but rather represents a 67% markup over cost (or expressed otherwise, a 40% profit). The large majority of 'OTC' claims are for products with a low price, and the amount of reimbursement over product cost to the pharmacist is usually much lower than a full dispensing fee."</i>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

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DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
December 9, 1980	*	Royal Ontario Museum: The Committee recommends that the Museum, or any entity relying on public funds, not be permitted to embark on large scale capital projects without the approval of Management Board.	<p>“There are a number of products provided as benefits which although legally considered ‘over-the-counter’ are not so identified in listing as benefits. This is because (a) the drugs are customarily supplied only on prescription and (b) are usually (e.g., antacids) supplied in such quantity that the price paid, although including a dispensing fee, is often much less than if a markup were applied.”</p> <p>On January 23, 1981 the Secretary, Management Board of Cabinet, advised the Chairman of the Standing Public Accounts Committee that:</p> <p>“Within the overall limits established by Cabinet, Management Board does approve the allocation of capital program budgets to ministries. This allows the Board to exercise overall budgetary control</p> <p>“It is the ministries, however, who are in the best position to assign funds to projects. There are a great many publicly funded capital projects and the negotiations, approvals and controls associated with them are frequently complex. Hence, these responsibilities are handled most effectively at the ministry level.”</p> <p>The Secretary, Management Board of Cabinet wrote as follows to the Chairman of the Standing Public Accounts Committee on January 23, 1981:</p>
December 9, 1980	—	(Consultants:	
	*	(a) The Committee recommends that Management Board consider the imposition of an interim period of one year between the termination of employment with a Ministry and eligibility to bid on a consulting contract with a Ministry.	<p>(a) “The Committee’s recommendation is, we believe, aimed at specific ex-employees ostensibly taking on their old job, (but as newly formed private sector suppliers) and in circumstances which offer government managers little practical choice. We will develop a policy remedy for this situation.</p> <p>“It should, however, be borne in mind that individuals have rights, whether in or out of our employ, and there may be some limits to our freedom of action in this area. Also, there</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

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		(b) The Committee recommends that the tender system for consultants' contracts be closely monitored with a view to insuring that tendered prices are adhered to.	are many legitimate circumstances to be recognized which cannot always be predicted by management and staff."
		(c) The Committee supports the recommendations of the Provincial Auditor in section 50 of his 1976-79 Report that	(b) "The present policies, in particular the price escalation policy, implicitly require that contract prices be monitored. Further reinforcement is included in the existing policy requiring that firm price bids and quotations shall be solicited wherever possible (35-7-2). We will consider modification of the professional services policies to ensure that wherever the original price is exceeded, that it must only be for specific new tasks, and that notwithstanding these conditions, the original terms of reference must be completed for the original price."
		1) agreements be in a form approved by the Legal Services Branch, and a standard form of agreement be considered;	1) "The practice in most ministries is that the Legal Services Branches are consulted. This is not presently a policy requirement. We will consider requiring the involvement of legal staff in preparing such agreements and/or use of standard agreement forms.
		2) work to be done be detailed in the agreement and the terms of reference be clearly defined;	2) "The existing policy, 50-3-6, adequately addresses the concern of the Committee: 'The Ministry shall ensure that contracts are awarded for specific projects with clearly defined terms of reference.' This is further reinforced in guidelines issued by Management Board describing what appropriate terms of reference will contain.
		3) agreements be completed before any of the contracted work has commenced;	3) "The practice in most ministries is such that this problem rarely arises. In the exceptional cases where it does arise, it would be preferable to deal with each case individually with a view to ensuring that proper timely written authorizations exist for all work undertaken.

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
		(See Note)	
		4) a management committee conduct a quarterly review of extended engagement of consultants;	4) <i>"There is an existing policy which discourages the extended engagement of consultants, viz. 50-4-1-1: 'Ministries shall not engage consultants on service contracts . . . both full time and continuous.'</i> <i>"Our view is that review of consultant engagements should be amply defined within the engagement terms of reference and notwithstanding that, is subject to the attention of ministry and other audit groups. We will, however, consider requiring ministries to carry out a systematic review for compliance with 50-4-1-1."</i>
		5) accumulation of service costs on a project basis be implemented for management consulting services;	5) <i>"These recommendations fall mostly within the purview of Treasury's Accounting Policies. Nevertheless, we will consider what policy amendments may be usefully developed at the same time as the committee's recommendation dealing with contract monitoring for price adherence is considered."</i>
		6) coding of service costs be subject to more scrutiny to ensure that expenditures are properly and consistently allocated;	
		7) consultants' invoices be certified that services have been rendered and prices are in accordance with agreements before submission for payment.	Regarding 5) to 7) the Deputy Treasurer stated <i>"I concur with the recommendations and will ensure that these specific points are conveyed to all ministries to be required standard operating procedure."</i>
December 9, 1980	*	Ministry of Agriculture and Food: The Committee supports the recommendation of the Auditor that non-arm's length transactions be strictly prohibited by the Ontario Food Terminal Board.	On January 20, 1981 the Deputy Minister of Agriculture and Food advised the Chairman of the Standing Public Accounts Committee that: <i>"I have written to the Chairman, Ontario Food Terminal Board, indicating that the Board put in place the recommendations of the Provincial Auditor as supported by your Committee."</i>
December 9, 1980	—	Ministry of Colleges and Universities:	The Deputy Minister of Colleges and Universities advised the Chairman of the Standing Public Accounts Committee, in part, as follows on January 23, 1981:

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
	*	(a) The Committee recommends that the Ministry's training programs be rationalized, not only internally, but in relation to other training programs available from provincial and federal governments and in the private sector.	<p>“Two significant changes have been made in the administration of the Training in Business and Industry (TIBI) Program. They are as follows:</p> <ol style="list-style-type: none"> 1. A TIBI Advisory Committee now operates to advise the Ministry on such matters as the content of the guidelines, the management of the program in the colleges. 2. New and improved guidelines have been developed and are now in operation. The guidelines are kept under review by both the Ministry and the Advisory Committee so that they may be updated as circumstances change. <p>“The new guidelines are more specific than those in operation at the time of the Provincial Auditor's review. They specify that each college is to have a TIBI manager. He is responsible for operating the program within the terms of the guidelines and is required to discuss college priorities with the Manpower Training Branch whenever there appears to be a divergence between priorities as seen by the college and the Ministry respectively.</p> <p>“The accounting provisions of the guidelines are more stringent than those previously in force. They provide for Provincial grants to be used in accordance with the guidelines within the year in which they are advanced. Unused grant money will be used to reduce the total grant allocated in the following fiscal year. Similarly, the use of fees has also been more rigidly defined in the new guidelines. TIBI fees are to be used for TIBI activity only.”</p>
	*	(b) The Committee recommends that guidelines setting the amount of funds which any client may receive per year be strictly followed.	
December 9, 1980	*—	Ministry of Treasury and Economics: The Committee recommends that the practice of artificially manipulating dates of deposit at year ends be discontinued.	<p>In a letter dated December 31, 1980 the Deputy Treasurer advised the Chairman of the Standing Public Accounts Committee that:</p> <p>“... I am pleased to comply with your recommendation. This practice is now discontinued.”</p>

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY—CONTINUED

(See Note)

DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
December 9, 1980	—	Auditing Procedures:	The Secretary, Management Board of Cabinet wrote as follows to the Chairman of the Standing Public Accounts Committee on January 23, 1981:
	*	(a) The Committee recommends that each Ministry, Agency, Board and Commission of Government establish an audit committee.	(a) <i>"In respect to ministries, we agree with the general thrust of the recommendation. For internal audit to be successful, we strongly feel that management must be supportive of the function and actively involved in the process. This point has been stressed in the Report of the Task Force on Audit Policy. An audit committee is an appropriate vehicle for management involvement. This also was pointed out in the Task Force report.</i>
			<i>"However, we believe that the deputy minister of each ministry should decide how senior management is to be involved in the audit process. An audit committee is one option. Some deputy ministers may prefer a less structured approach.</i>
			<i>"In respect to agencies, boards and commissions, we believe that, as with ministries, management should be supportive of and involved in, internal audit. However, the idea of establishing an audit committee as a universal requirement for all agencies, boards and commissions requires careful consideration for several reasons.</i>
			<i>"First, agencies, boards and commissions vary in respect to their need for an audit committee. For example, in the case of some advisory committees, there may be very little to audit. Hence, an audit committee would be unnecessary.</i>
			<i>"Second, the implementation of such a recommendation can be complex. For example, legislative action could be required in the case of some agencies, boards and commissions.</i>

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		(See Note)	
	*	(b) The Committee recommends that the Government require comprehensive auditing of all its Agencies, Boards and Commissions.	<p>"Finally, as was noted above in respect to ministries, some agency heads may prefer to involve management in the audit process through a less structured approach."</p> <p>"We are in general agreement with the thrust of this recommendation. In fact, the Government now requires that the scope of the internal audit in each ministry be comprehensive. But we have some suggested qualifiers."</p> <p>"It should be pointed out that comprehensive auditing would not be appropriate for every agency, board or commission. For example, in the case of some advisory committees, there may not be sufficient administrative activity to warrant comprehensive auditing."</p> <p>"We are concerned that the Government achieve the greatest possible return for the auditing dollar. As well, we must recognize that the supply of trained auditors is limited. Hence, the Management Board requires that audit programs be developed through a rigorous planning process which will ensure that appropriate priorities are established. We believe that the comprehensive auditing of agencies, boards and commissions should be considered within such a planning process."</p> <p>(c) "We believe that the recommendation represents a desirable goal."</p> <p>"However, the implications of the recommendation and the manner in which it might be implemented require very careful consideration. Provincially funded bodies encompass a great number of organizations which vary widely in respect to their size, function, degree of autonomy and auditing requirements. The recommendation has significant implications."</p>
	*	(c) The Committee recommends that comprehensive auditing become a requirement for all bodies receiving public funds.	

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE
STANDING PUBLIC ACCOUNTS COMMITTEE TO THE LEGISLATIVE ASSEMBLY —CONTINUED

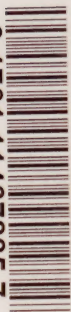
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DATE OF REPORT	RECOMMENDATION #	CONTENT OF RECOMMENDATION	STATUS AS AT DATE OF PREPARATION OF 1980-81 AUDITOR'S REPORT
			tions in respect to provincial-municipal relations, the supply of trained auditors and auditing costs.
			"Hence, at this time, we believe that the appropriate course of action is to take the recommendation under advisement."

NOTE: This Exhibit includes the status of recommendations contained in all Reports of the Standing Public Accounts Committee from July 10, 1975 to December 20, 1979 which were considered unresolved by the relevant Ministry or Agency as at the date of the 1979-80 Auditor's Report (see Exhibit 8 of the 1979-80 Auditor's Report). The Exhibit also includes the status of all recommendations contained in the Committee's December 9, 1980 Report to the Legislature.

*Considered resolved by Ministry or Agency as at September 30, 1981, the date of this Report.

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